NTER-COUNTRY EVALUATION OF SMALL FARMER ORGANIZATIONS

A.I.D. and Small Farmer Organizations: Lessons of the Honduran Experience

Judith Tendler

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For Office of Development Programs of the Latin America Bureau of A.I.D.

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Abbreviations and Acronyms

ACDI - Agricultural Cooperative Development International

AID - Agency for International Development

AIFLD - American Institute for Free Labor Development

ANACH - National Association of Honduran Peasants (Asociación Nacional de Campesinos Hondureños)

ATAC - American Technical Assistance Corporation

BNF - National Development Bank (Banco Nacional de Fomento)

COLAC - Latin American Confederation of Credit Unions (Confederación Latinoamericano de Crédito)

CONCORDE - Coordinating Council for Development (Consejo de Coordinación para el Desarrollo)

CUNA - The Credit Union National Association, Inc.

FACACH - Federation of Honduran Credit Unions (Federación de Cooperativas de Ahorro y Crédito de Honduras)

FECOAGROH - Federation of Honduran Agricultural Cooperatives (Federación de Cooperativas Agrícolas de Honduras)

FUNDHESA - Honduran Development Foundation (Fundación Hondureña de Desarrollo, S.A.)

INA - National Agrarian Institute (Instituto Nacional Agrario)

Preface

This study is the second of two evaluations of small farmer organizations financed by AID in Honduras and Ecuador. The studies are part of a series of inter-country evaluations of AID programs in Latin America, sponsored by the Office of Development Programs of the Latin America Bureau. Based on the two country evaluations, a final report has been written, which presents general findings about AID assistance to small farmer organizations and makes recommendations concerning the design and implementation of future projects. The final report and the Ecuador study are available at the Office of Development Programs.

This evaluation study is based on a four-week stay in Honduras in August of 1975, a few weeks in Washington locating project documents and interviewing the persons who had been involved, and several weeks of reading the files and analyzing the data in Berkeley. About two-thirds of my time in Honduras was spent in the countryside, talking with small farmer groups and with personnel from institutions that service them. Four institutions most generously facilitated my field visits--the Cooperative Department, the National Agrarian Institute, the Ministry of Natural Resources, and the National Association of Honduran Peasants. I also talked with managers of three branches of the National Development Bank, who kindly gave me access to their files on an AID line of small farmer credit.

In the Choluteca region, I visited cooperatives and asentamientos, most of the latter having started as peasant leagues belonging to the National Peasant Union. Three FECOAGROH coops in the Comayagua Valley were visited. In the North Coast area, I visited four banana coops (two of which had belonged to FECOAGROH), several asentamientos (many of which had originated as locals of the National Association of Honduran Peasants), and a group of asentamientos who were attempting to form a second-level group--La Masica.

I visited the Isletas banana plantation--an ex-Standard Fruit operation that had suffered considerable hurricane damage and was now being run, with government assistance, as a self-managed enterprise by ex-workers. I also talked with five or six cooperatives of the Bajo Aguán colonization project, as well as with the managers of that project. In Tegucigalpa, I talked with representatives of the AID Mission, INA, FACACH, FECOAGROH, the Coop Department, the Radio Schools Association (ACPH), and other persons who at one time or another had played important roles with respect to small farmer groups in Honduras. In San Pedro Sula, I met with officials of the National Association of Honduran Peasants.

I received invaluable assistance and logistic support from the AID Mission in Honduras, for which I am most appreciative. The Honduran institutions named above went out of their way to provide me with information, explanations, and visits to farmer groups. They were most accommodating of my wish to speak with these groups alone.

Because the chapters of this report were circulated separately in an early draft, they are separately paged.

Judith Tendler
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I - Introduction

AID's assistance to small farmer organizations in Honduras has involved comprehensive projects with other agricultural components (the 018 and 025 loans), and institutions that served non-small-farmer or non-agricultural clients as well as small farmers (FACACH and the BNF). Only one program dealt exclusively with creating and servicing small farmer groups (FECOAGROH).

The histories of the small farmer group aspect of AID's programs in Honduras are bound up with the histories of these whole programs, including the non-small-farmer and non-group part. Each AID program, in turn, was considerably interdependent with the others, because of the AID loans and the fact that all the programs touched upon the same sector in a relatively small country. Because of this interconnectedness, it is difficult to describe and analyze these programs separately from each other, or to discuss only the parts that pertained to small farmers and groups. have therefore presented some of the histories of these programs as they occurred, all together, and have tried to focus on the aspects of this evolution that are most related to small farmer organizations.

<u>The Federation of Honduran Credit Unions (FACACH)</u>. AID financed the development of Honduran credit unions and their federation, FACACH, with $647,000 of grant assistance over the 1966-1972 period, at the

end of which the Federation was 100% self sufficient. The Federation had 110 affiliated credit unions by the end of 1974, representing 29,400 members. Assets were $2.9 million, year-end savings balances were $6.3 million, loan balances were $2.4 million, and $2.6 million in credit had been granted during that year. Farmers accounted for about 28% of membership and about 33% of credit.

In contrast to the case of the Ecuadorean federation, AID provided FACACH with credit for re-lending through concurrent loans of $500,000 and $1.5 million. This helped the Federation earn income and gain the allegiance of affiliated unions. Also in contrast to Ecuador, the Honduran program was not the subject of AID assistance to set up an agricultural credit program. FACACH nevertheless ended up more involved in group finance to agriculture than FECOAC.

The Federation of Honduran Agricultural Cooperatives (FECOAGROH). In the late 1960s, the AID Mission in Honduras transferred its attention from the development of the credit union system to the organization of grain-producing farmers into marketing coops and a marketing federation, FECOAGROH. The program received $965,000 in grant assistance over the 1967-1973 period, and $1.5 million in loan funds for production and marketing credit and the construction of small grain storage facilities.

FECOAGROH was unique among the programs reviewed as the only case of a complete failure. The Federation, formed in 1970, went under in mid-1973 when AID prematurely terminated its assistance because of serious delinquency in 22 of its 29 affiliated coops. As in the case of the PPEA, AID credit had been channeled to the Federation through an outside institution, FACACH, which was not sympathetic to FECOAGROH's problems. In contrast to the Ecuadorean rice federation, moreover, FECOAGROH did not have the support of politically important peasant groups nor connections with public sector institutions, and thus received no help from them when its coops fell delinquent.

The National Development Bank of Honduras (BNF). AID lent $3.5 million for individual small farmer credit to the Honduran development bank in 1969--as part of an $8 million program for credit and grain storage construction. In 1973, AID lent a further $744,000 for the creation of a Cooperative Window in the Bank. In 1974, $6 million of a $12-million AID sector loan was designated for lending by the BNF to cooperatives ($2 million) and asentamientos ($4 million).

A detailed study was made of the credit portion of the first AID loan to the BNF, even though it did not involve groups, for the following reasons: (1) in all the programs studied, the way in which credit was provided was an important determinant of the success of both the base-level groups and the servicing institutions; (2) the BNF program provided an unusual opportunity to evaluate some important aspects of AID's small farmer credit programs--mainly, the distribution of loans and of delinquency according to loan size; and

(3) the BNF was selected in 1973 and 1974 by AID as the institutional conduit for a major program of group lending, which was just starting at the time of this evaluation. The evaluation of the first credit program, along with field observations of the Bank's assistance to groups, constituted a basis for discussion of various matters concerning the supply of credit to small farmers through this type of institution.

The Agriculture Sector Program in Honduras (025) and the Agrarian Reform. The current AID program with the BNF is part of AID's $12 million agricultural sector loan to Honduras, authorized in June of 1974. The program includes $5.9 million for the groups created through the Honduran agrarian reform process, which started with a "forced rental" decree in December of 1972. Of that amount, $4 million is for credit and $1.9 million for access roads. The rest of the loan is for cooperative credit ($2.3 million), agricultural sciences ($1.6 million), agriculture education ($1.5 million), and coordination and evaluation ($0.8 million).

Even though this program was not yet in full operation at the time of my visit, negotiations for it had gone on since the beginning of the agrarian reform in 1972. AID was also involved with the reform process through previous technical assistance agreements with various reform-implementing institutions.

Other Small Farmer Programs. There are numerous private groups in Honduras who work with small farmers and have been recipient of AID funds in one form or another. The most important is the National Association of Honduran Peasants (ANACH), funded by AID through the American Institute for Free Labor Development (AIFLD). AID has also indirectly funded a group of Christian Democrat organizations concerned, among other things, with small farmer organizations. The Honduran Development Foundation, FUNDHESA, has been the most important conduit of such credit funds, which have been channeled to it through the BNF and FACACH. Of the $756,000 in AID/018 credit channeled through FACACH, $200,000 or 26% went to FUNDHESA. FUNDHESA and other private non-profit groups have also been the conduits for distribution of U.S. relief supplies after hurricanes, droughts, and the El Salvador war. Some of these groups have recently started to receive U.S. funding through the Inter-American Foundation, including the credit union federation FACACH.

Though AID does not have direct relationships with these Christian Democrat groups, they have been at least as important as ANACH in the development of small farmer organizations and in mobilizing effective political pressure for the agrarian reform in Honduras. Most of these groups are loosely associated with or sympathetic to the National Peasant Union, the organization of peasant leagues that is to a certain extent a rival of ANACH. My work in Honduras involved relatively little exposure to Christian Democrat groups, but their role in the development of Honduran small farmer organizations has been of major importance.

INTER-COUNTRY EVALUATION OF SMALL FARMER ORGANIZATIONS: HONDURAS

II - The Federation of Credit Unions of Honduras - FACACH

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Introduction

As in Ecuador, AID's first project involving assistance to groups in Honduras was the credit union program. Between 1966 and 1972, AID granted $647,000 to Honduras for technical assistance and budget support for the organization of credit unions and a credit union federation, FACACH.[1] FACACH was chartered in April of 1966 with 45 affiliated unions and 6,400 members. Also similar to Ecuador, the AID project was mostly the result of the combined organizing interest of local priests and the U.S. credit union federation, CUNA. CUNA was the contractor for the credit union project, and had started organizing credit unions in Honduras with AID financing in 1965.

In contrast to many cases of AID support to credit-union or coop federations, AID's budget support ended at the predicted time in 1971, when FACACH became self sufficient in its operation and maintenance costs.[2] Technical assistance through CUNA terminated the following year. Three years after termination of AID budget support and despite considerable periods of AID-FACACH conflict, FACACH is, according to AID, "a well-managed financial

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[1] Project No. 522-15-995-074.1.

[2] U.S. Agency for International Development, Office of the Auditor General, Area Auditor General - Latin America (North) (AID/AAG/LA), "USAID/Honduras, Cooperative Development," Audit Report No. 1-522-72-64, Project Nos. 522-15-995-074.1 and 074.2, 8 March 1972, p. 2.

institution which has achieved considerable community respect."[3] It is virtually self sufficient. Its income in 1974 was $358,000, almost twice that projected by AID in 1968 for 1973 (Table 1). It had 110 affiliated credit unions with 29,400 members, assets of $2.9 million, a year-end loan balance of $2.4 million, and had granted $2.6 million in new loans during the year.[4]

FACACH was able to mobilize loan funds from sources other than AID--in 1974, $472,000 from the National Development Bank and $5.9 million from COLAC, the Latin American Confederation of Credit Unions. It also had good relations with the private banking system, having worked out an arrangement with two private banks for centralized pooling of deposits for 74 of its credit unions. Finally, FACACH had become somewhat of a financial agent for non-affiliated cooperatives. Forty percent of its credit in 1974 went to these non-affiliated groups.

Despite FACACH's achievements--or perhaps as a cause of them--the Federation accounted for only a small portion of the country's institutional credit. Its total credit was about 4-7% of BNF credit and about 1/2% of all credit in the system (Table 2). Its crop credit was about 3% of that of the National Development Bank (BNF) and about 1-1/2% of that in the total banking system. This latter share was exactly the same as that of the credit union federation in Ecuador.

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[3] U.S. Agency for International Development, Latin America Bureau, Office of Development Resources (AID/LA/DR), "Honduras - Agriculture Sector Program," Capital Assistance Paper, AID-DLC/P-2051, 14 June 1974, Annex I, Exhibit C, p. 45.

[4] Federación de Cooperativas de Ahorro y Crédito de Honduras (FACACH), Memoria Anual [1974], 1975.

In contrast to the case of FECOAC in Ecuador, AID provided for credit to be channeled through FACACH to its affiliated credit unions. In 1967, upon AID's recommendation, the Honduran Government lent $500,000 to FACACH for credit from funds available under an AID-two-step loan to the Financiera Hondureña (010). In 1969, because of FACACH's experience with lending to credit union groups, AID selected the Federation as the conduit for part of its $9.5 million loan (018) to the Honduran government for agricultural credit and grain storage facilities.

Though most of the 018 loan went to the National Development Bank, $744,000 was designated for FACACH for grain storage facilities and $756,000 for agricultural credit to affiliated credit unions and non-affiliated coops. The latter groups had been organized by Agricultural Cooperative Development International (ACDI), starting in 1967 under a contract with AID. Of the $744,000 in grain storage funds for FACACH, $100,000 was for FACACH construction of two central facilities in Tegucigalpa and San Pedro Sula; $470,000 was for relending to agricultural coops for construction of small facilities; and $174,000 was for grain inventory for FACACH and the coops.

For various reasons discussed below, the grain storage funds were not used by FACACH. The 018 loan was amended in 1971 so that the grain storage portion would now go to the AID-created federation, FECOAGROH--instead of FACACH. This federation, created in 1970, was comprised of the agricultural coops mentioned above. The $756,000 in agricultural credit was now to be channeled to the coops through the new federation, instead of being lent directly by FACACH. The reasons for this change are explained later.

AID's grant program with FACACH did not single out agriculture for special attention. This was in contrast to the cases of FECOAC in Ecuador, FENACOAC in Guatemala, and CREDICOOP in Paraguay.[5] In these countries, AID financed the setting up of "directed agricultural credit programs" within the credit union federations. Despite this difference between FACACH and the other federations, the role of agricultural credit and farmer participation in FACACH was double that of FECOAC. Whereas farmer membership accounted for about 12% of total FECOAC membership, farmers represented about 28% of FACACH membership; similarly, about 10% of FECOAC's loan value was for agricultural credit, while the corresponding figure for FACACH was between 25% and 40% (Table 3). The situation was roughly the opposite with the Guatemalan credit union federation, where farmer participation was about twice that of the FACACH case.

FACACH did well enough as a financial institution that it became a supplier of credit to non-affiliated coops. Forty percent of its credit went to these groups, most of which were agricultural (Table 4). Though FACACH did not have an agricultural

[5]FECOAC is analyzed in the Ecuador volume of this evaluation, pp. 7-42; FENACOAC in American Technical Assistance Corporation (ATAC), Rural Cooperatives in Guatemala, November 1975; and CREDICOOP in Development Alternatives, Inc. (DAI), Strategies for Small Farmer Development, Vol. II, May 1975.

program, then, it was more involved as a financial institution in agriculture--independently of its credit unions--than some of the federations with agricultural programs.

FACACH became independent of AID financing on schedule and in a relatively short period of time--six years. This is in contrast with the delays and problems of many other programs of AID budget support to coop or credit union federations. The $647,000 and six years of AID's FACACH program in Honduras, for example, compares to the $911,000 and ten years of the FECOAC program in Ecuador, after which the Ecuadorean federation was still not self sufficient.[6] It also compares favorably to the $956,000 spent on the FECOAGROH program over a seven-year period, after which the federation failed.[7] The fact that AID did not choose FACACH for an agricultural program, in contrast to the other credit union federations, seems to have had some importance in explaining the Federation's achievement in self sufficiency. The story of why FACACH was not chosen, moreover, is very important to an understanding of the problems of the FECOAGROH program, taken up in the following chapter.

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[6] Pp. 174-205 of the Ecuador volume deals with these self sufficiency problems.

[7] See FECOAGROH chapter below.

The History of FACACH and AID

AID's decision in 1971 to partially substitute FECOAGROH for FACACH in the 018 program is, at first glance, perplexing. Why would AID have chosen an organization that was just created (in early 1970) to partially replace an existing AID-created organization for the administration of a program involving more than a million dollars of funds? The decision looks more perplexing with the benefit of hindsight. Four years after the change in the loan agreement, that is, FACACH was a successful financial institution, though modest in size, and FECOAGROH had virtually passed out of existence.

AID's switch from FACACH to FECOAGROH is explained only incompletely in the documentation, leaving several questions unanswered. The whole picture became clear to me only after questioning several actors of that period about its history. The parts of the following story that are based on this questioning were told to me in substantially the same way by persons who were in the AID Mission or FACACH at that time. Aside from the fact that the story is a fascinating one, the reason for completing the picture is that it is the only way of getting at some of the important lessons of both the FACACH and FECOAGROH experiences.

FACACH rejects AID. A few years after its founding, FACACH became somewhat of a center for young university graduates who were concerned about social problems in their country. This was reflected in the unusually young age of its directors and managers, which averaged 33 years old in 1970.[1] This group had some affinity to the Christian Democrat organizations that emerged in the late 1960s, mainly to organize peasants and help them press for agrarian reform. FACACH later became a member of a loose organization of these groups, CONCORDE, which was founded in 1972.[2] The FACACH group saw in their organization the possibility of carrying out some of their concerns for social action through credit unions in the countryside.

One of the interests of the activist wing of FACACH was to give assistance to some peasant groups which were too poor to accumulate enough savings to join a credit union. Credit that required previous savings, they felt, excluded many of the rural poor from the program. Since this approach violated the principle of credit unions, by which one gets credit in proportion to one's savings, the AID Mission was not in accordance. The organization was still highly dependent on AID budget support at that time, which gave veto power to AID in its financial decisionmaking.

This difference of approaches was one of the reasons for a growing discontent with AID on the part of the FACACH group.

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[1] CUNA/Washington files.

[2] CONCORDE stands for Consejo de Coordinación para el Desarrollo. FACACH left CONCORDE in 1975, because of problems described below.

They felt that AID was too preoccupied with "business" concerns. AID's participation in the organization, moreover, was looked upon by the group as an unwarranted intrusion of a creditor. The AID Mission, for example, was represented at meetings of the FACACH Board of Directors. The president of the Federation, it was felt, was overly responsive to AID. Finally, AID had encouraged FACACH to use AID monies to construct a $125,000 six-story headquarters building. Since FACACH would not need all that space, AID suggested that FACACH rent the unused space to the Peace Corps and other representatives of AID programs, thereby obtaining an additional source of income. The FACACH group felt that such an office building would be too extravagant for an organization that was supposed to deal with financially modest people.

The resentment of the FACACH group built up to the point that there was vigorous politicking against AID among the affiliated unions, ending in the convocation of an extraordinary session of all the affiliates in 1969. At this session, the $125,000 building was voted down in favor of a more modest $50,000 structure.[3] The assembly also voted to exclude AID from future board meetings and ousted the president, replacing him with a person considered to be less

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[3]American Technical Assistance Corporation (ATAC), "Field Trip Background Report on Honduras," in Evaluation of AID and AID Contractor Programs in Promoting Cooperatives in Latin America, June 1971, p. 63. ATAC commended FACACH for having "demonstrated a desire to make its own decisions independently of its AID sponsor."

responsive to AID. The special assembly, in short, gave a resounding "no" to AID.

Following the events of 1969 and some turnover in AID Mission personnel, the Mission lost a good deal of the special interest it had had in the FACACH program. The Mission's cooperative contacts were now with the Cooperative Department of the government and FECOAGROH. This increased the tendency for distance to develop between AID and FACACH. Another blow to the AID-FACACH relationship was the change in the 018 loan agreement, mentioned above, which transferred a major part of control over the $1.5 million in credit from FACACH to FECOAGROH. Finally, when FECOAGROH failed in 1973, the unobligated $744,000 for storage facilities came up for grabs. FACACH proposed that AID amend the loan agreement so that it, FACACH, could use the funds in a program of small farmer credit. But AID ultimately decided to use the funds to capitalize a coop-lending program in the National Development Bank. In order to understand AID's justification for these decisions, and FACACH's reactions, it is necessary to understand why FACACH got included in the 018 program in the first place.

<u>The decision to include FACACH</u>. The 018 program was originally conceived of by AID and the Honduran Government as a program with the National Development Bank. It originated in a proposal by the Honduran Government that AID purchase bonds to help capitalize the Bank. After several modifications, the loan ended up as a program focused on grains--with $3 million for the construction of grain storage facilities by the BNF, $4.5 million for BNF credit to individual grain producers, and $500,000 for agroindustrial projects.

AID was not completely satisfied with the exclusive role of the BNF in the 018 program, as proposed in the Intensive Review Request of 1967.[5] AID wanted to provide credit to farmer groups as well as individuals, and the BNF was not interested in working with grain-producing groups. AID was also leery of channeling all the credit funds through the Bank because it had management problems, a large bureaucracy, a high delinquency rate, and had never made a profit. It also had a tradition of working with large farmers. "While the BNF was to some extent reaching the [small] farmer," the 018 loan paper concluded, "a more efficient and effective means other than direct BNF credit was needed."[6] The Mission

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[4]Pp. 7-19 of BNF chapter describes the evolution of these changes.

[5]U.S. Agency for International Development, Honduras Mission (AID/H), "Honduras - Banco Nacional de Fomento," Intensive Review Request (IRR), LA-CAEC/P-67/60, 15 March 1967.

[6]AID/LA/DR, "Honduras: Agricultural Credit and Storage," Capital Assistance Paper, AID-DLC/P-744, 20 June 1968, p. 22.

proposed, therefore, to channel $1.5 million of the credit and storage construction funds through FACACH. FACACH was a known entity, having been created by AID in 1966. Though it was small, it had half the delinquency rate of the Bank (20% vs. 10%), had some experience in lending to groups, and was becoming a respected financial institution. FACACH's budget, moreover, was to a considerable extent financed by AID grant funds during those years. As AID's baby, FACACH was likely to be seen by AID as a natural conduit for any loan program involving credit.

AID had a hard time convincing the Honduran government to go along with the FACACH aspect of the project. The government did not like the idea of including FACACH in on what it conceived as a program for its development bank. It did not want to allow $1.5 million of potentially free capital for the Bank to be diverted to a private institution in which it had no special interest. This was a period, moreover, when groups associated with Christian Democrat thinking were organizing peasants in the countryside, often around demands on the government for agrarian reform. That FACACH was the home of some of these concerned Christian Democrats probably did not help to make the government feel more amenable to AID's proposal. The government finally gave in, however, agreeing to re-lend $1.5 million of the loan funds to FACACH at 2-1/2% interest for 20 years, including 5 years grace. (The government was borrowing from AID at 2-1/2% for 40 years with 10 years grace.) All this took place during the period before the AID-FACACH rupture of 1969, when relations between AID and FACACH were still good.

AID replaces FACACH with FECOAGROH. Six months after FACACH's reaction against AID in its 1969 assembly, a new federation of agricultural marketing cooperatives was constituted with AID financing. FECOAGROH, legalized in January 1970, was the product of another AID program involving the organization of agricultural marketing cooperatives and a marketing federation. The AID contractor, Agricultural Cooperative Development International (ACDI), had been organizing the base-level coops since 1967, and the new federation was a second stage of this program. As soon as the federation was constituted, AID proposed certain changes in the FACACH part of the 018 program that were subsequently incorporated in an amendment to the loan agreement one year later.

According to the changes, the central storage facilities would now be undertaken by FECOAGROH instead of FACACH. The funds for storage construction by the coops would also now be channeled from FECOAGROH to its affiliated coops, instead of directly from FACACH. The funds for storage operations, of course, would also now be used by FECOAGROH. Thus the total of $744,000 in storage funds would now be managed by FECOAGROH instead of FACACH.

The part of the $756,000 in production credit that was to go to the agricultural coops would now also be channeled through FECOAGROH, instead of being lent directly to the coops by FACACH. Under the amended agreement, FACACH would still retain an intermediary financial role; all the credit for FECOAGROH and its coops would be channeled through FACACH.

There are conflicting explanations as to why AID switched administration of a good share of FACACH's loan funds to a newly created organization. The documentation on the project states simply that "FECOAGROH...was not in existence at the time the loan was signed and, as a consequence, FACACH...was given initial administrative capacity."[7] All parties concerned, according to some AID participants in the project design, knew all along that the change to FECOAGROH would occur as soon as that federation was legalized. FACACH, it was said, was also privy to this plan. The fact that the loan paper and loan agreement comprehensively detailed the role of FACACH in the storage and credit program and made no mention of an anticipated new federation of coops, according to this view, was "cosmetic." It allowed the loan to be approved in Washington and signed in Honduras without having to wait for the planned creation of FECOAGROH.

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[7] U.S. Department of State, Inspector General of Foreign Assistance (IGA), "AID Loans to Honduras," Memo to the Inspector General, 16 February 1973, p. 16.

The timing of events lends some support to the above view. The loan was approved in Washington in June of 1968 and signed in Honduras in April of 1969; FECOAGROH was legalized in January of 1970 and the loan agreement was amended a year later, in January of 1971. A 1968 Mission proposal for funding of FECOAGROH, moreover, lists the capital input requirements of the federation and its coops "to be supplied by $1.5 million AID loan"--though there was no elaboration.[8] The above proposal was submitted a few weeks before the authorization of the 018 loan in 1968, which featured FACACH as sole administrator of the $1.5 million.

Other AID participants in the events of the time state that AID's switch to FECOAGROH did represent a substantive change in the Mission's plans and organizational allegiances. According to FACACH, moreover, the switch was not something it had known about in advance or planned for. Thus FACACH objected vigorously when the Mission made the proposed changes. According to some, moreover, the proposed change originally involved direct lending of the credit to FECOAGROH from the government--bypassing FACACH completely. But FACACH did not want to completely give up the role set out for it in the loan agreement, and was by that time an important enough organization not to be ignored. "A jurisdictional

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[8] AID/H, "Cooperative Development (Agriculture)," Noncapital Project Paper (PROP), Project No. 522-11-990-074.2, Airgram TOAID A-384, 11 June 1968, p. 17.

dispute between [FACACH and FECOAGROH ensued] regarding who was to administer the loans and how the interest would be divided."[9]

There was considerable haggling between the two federations over their relative share of the interest income, and the amount of control FACACH would have over FECOAGROH's credit. AID wanted FACACH to have less control and FACACH wanted more. A compromise was ultimately worked out, whereby AID succeeded in getting the monies switched to FECOAGROH. The credit, however, would have to be channeled through FACACH, thus providing it with at least some interest income. With respect to the division of the interest return between the two federations, FECOAGROH had hoped to retain 6% of the 9% charged to its coops, with 3% going to FACACH. FACACH stood firm, however, until it was agreed that FECOAGROH would retain only 3% and FACACH would get the 6%. (FACACH would repay the loans to the Honduran government at 2-1/2% over a twenty-year period; the coop would charge up to 3% to the individual coop borrower for a possible total of 12%.)

The working out of these disagreements delayed the initiation of loan disbursements to FECOAGROH coops until March 1971. This was almost three years after the loan was authorized and two years after it was signed. This delay, in turn, was later cited by AID and ACDI as one of the reasons for FECOAGROH's

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[9] IGA, "AID Loans to Honduras," 16 February 1973, p. 16.

subsequent difficulties.[10]

FACACH saw the amended 018 loan as a comedown for it, even though the credit for FECOAGROH promised to involve considerable interest earnings and even though some of the production credit could go to FACACH affiliates.[11] In FACACH's eyes, FECOAGROH had ended up with a program originally meant for FACACH. FACACH saw itself as having succeeded in getting AID to channel the FECOAGROH funds through it only under duress, and as receiving less interest return than it had expected. (FACACH lends to its own credit unions and its non-affiliated coop borrowers at 9% plus a forced capitalization charge of 10%--in contrast to the straight 6% it would get from its FECOAGROH lending.) FACACH not only rued the loss of the $1.5 million of the loan agreement. It had also hoped that AID would help it set up a supervised agricultural credit program, as had been done with credit union federations in other countries. Thus FACACH was resentful that AID built up an agricultural credit program in another institution, and that it preferred to create a new institution from scratch for this

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[10] AID/H, "Cooperative Development(Agriculture), "Noncapital Project Paper (PROP), Project No. 522-15-810-074.2, 9 March 1973, p. 2.

[11] By mid-1973, when FECOAGROH failed, that federation had used $294,000 of the $756,000 and $299,000 had gone to FACACH affiliates. By mid-1974, the remaining $163,000 had been channeled by FACACH to its affiliates and to the Honduran Development Foundation (FUNHDESA). The $744,000 for grain storage was completely undisbursed.

purpose. FACACH felt that AID had turned away from it, in part, in reaction to its adverse actions of 1969.

Why FACACH was not chosen. AID had various reasons for choosing FECOAGROH over FACACH in 1970. For one, it felt that FACACH was not suited to the task of group agricultural credit. FACACH, it said, was a conservative, business-like organization, which had not shown an interest in small farmers. The "small farmers" of FACACH groups, it was said, were really medium sized, and thus not within the target group that interested AID.[12] Finally, AID's shift from FACACH to FECOAGROH also reflected a change in the Mission's thinking about how to channel credit and other services to small farmer groups. It was thought that a supervised credit program run through the credit union federation would not be as direct an approach to small farmers as the organization of agricultural marketing cooperatives and a federation to serve them.

[12] More research needs to be done to determine whether FACACH's farmer-members were any less small-farmer than FECOAGROH's. Because it has no special agricultural program, FACACH has relatively little breakdown of its agricultural credit data. It is therefore not possible to determine average loan sizes on FACACH agricultural credit, let alone obtain information on landholdings. Since AID conducted no surveys on FACACH's farmer members, there is no way of knowing whether its allegations were true, or whether FACACH's small farmers were actually larger than FECOAGROH's. Some evidence presented in the FECOAGROH chapter, for example, suggests that there was a liberal dose of medium farmers in that program. A survey of farmer members of AID's credit union program in Guatemala, moreover, found that they were smaller than the farmers of AID's FECOAGROH-type program in that country. ATAC, Rural Cooperatives in Guatemala, November 1975.

Ironically, the criticism of FACACH as conservative took exactly the opposite tack from some of the talk about the organization in the halls of the Mission and the Embassy in Tegucigalpa. The FACACH group was sometimes characterized as a bunch of Christian Democrat intellectuals and would-be reformers, who were too politicized and perhaps not to be trusted. In contrast, the newly-created federation of marketing coops, FECOAGROH, was characterized as a more reliable, sounder group of people. Whereas FACACH management came from the university, it was said, FECOAGROH management came from the development bank or had other business training.

In general, the turning of AID's back on FACACH for agricultural credit programs was also the result of the transition of AID policy in the mid-1970s toward rural development lending. This meant doing agricultural projects on larger scales. FACACH was a child of the past "small" approach, dominated by technical assistance and budget support. When rural development lending came on the scene, then, FACACH just wasn't big enough to fill the bill. With AID in this new and larger frame of mind, it is not surprising that some of the successful aspects of the FACACH experience have not been chronicled--as discussed further below.

Finally, AID's shift from FACACH to FECOAGROH reflected to some extent a broader shift, in some of AID's missions, in the favor of the cooperative contractors, CLUSA and ACDI, vs. the credit union contractor, CUNA. In the case of Ecuador, a shift in favor of CLUSA explains in part why AID's credit for credit unions was channeled through an AID-created Coop Bank rather than through the credit union federation.[13] In Guatemala, the AID Mission shifted support in the early 1970s from a CUNA-sponsored credit-union federation to a new ACDI-sponsored federation of marketing cooperatives.

The history of the Guatemala developments is strikingly similar to that of Honduras. In both cases, AID started with support of a credit union federation in the 1960s. In both cases, conflict grew between AID and "nationalist" elements in the federation management. In both cases, the conflict led to denunciation of AID by the credit union federation as "interventionist," and successive characterization by AID of the federation as "radicals." And in both cases, AID decided to create new federations of agricultural marketing cooperatives with ACDI as contractor, rather than channel its group credit through an existing AID-created credit union federation. Finally, the credit union federation in both cases turned out to be stronger than the marketing coop federation.[14] But this is to anticipate the story of FECOAGROH.

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[13] Ecuador volume, pp. 43-59.

[14] ATAC, Rural Cooperatives in Guatemala, November 1975.

<u>AID chooses the BNF over FACACH</u>. FACACH's ill feelings toward AID was fed by another "rejection" at the beginning of 1974. By 1973, FECOAGROH was beset with severe problems which led to its demise in that year--a story that is reserved for the following chapter on that organization. One of the results of FECOAGROH's problems was that the $744,000 for grain storage facilities was never used. (Remember that the $744,000 was originally designated for FACACH in the 1969 loan agreement, and then switched to FECOAGROH in the 1971 amendment to the loan agreement.) While the Mission was considering de-obligation of the $744,000 in 1973, FACACH came up with the proposal for use of the funds in a program of agricultural credit to its credit unions, to the stranded FECOAGROH coops, and to other non-affiliated agricultural coops. AID was sympathetic to the proposal for awhile, but ultimately changed its mind. The government of Honduras had said it was not feasible, and backed an alternate proposal for use of the same funds by the National Development Bank to capitalize a cooperative lending operation in that institution. The loan agreement was amended in April of 1974 so as to finance this operation in the BNF with the $744,000.

AID justified its choice of the BNF over FACACH for reasons that were somewhat similar to its choice of FECOAGROH over FACACH three years earlier. FACACH, it said, "was not designed to meet the special needs of small farmers."[15] Although 40% of its loans were in agriculture, it said, "many of them are for commercial crops (coffee, sugar) not eligible under the Loan." These loans were "generally larger in size" than those foreseen by the 018 loan program.

FACACH had never enlarged its agricultural staff, the Mission said, because of the previous decision to channel the 018 credit through FECOAGROH. "With FECOAGROH managing the bulk of the agricultural sub-loans, FACACH never attempted to build up its capability in agricultural lending, and cannot be expected to do so in a short time frame." FACACH had also not been successful in reaching an agreement with the Ministry of Natural Resources or the Extension Service, it was said, as an alternate way of providing extension assistance. Finally, the Mission said that FACACH did not "appear fully capable of utilizing the Loan 018 funds presently available to it." Of the $756,000 in 018 agricultural credit, $250,000 remained undisbursed when FACACH declared the credit freeze on FECOAGROH coops in 1973. By the end of 1973, $163,000 was still undisbursed.[16] Though FACACH was rejected for the

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[15] This and other citations in this paragraph are from AID/H, "Request for Amended Authorization of Loan No. 522-L-018; Agricultural Credit & Storage," Memo to Office of Development Resources, Latin America Bureau of AID, n.d. [Fall 1973], pp. 8-9.

[16] Ibid., pp. 3-4. By July of 1974, the total $756,000 was disbursed. FACACH, "Summary Claim Reimbursement No. 25," 6-31 July 1974.

$744,000, it should be noted, the loan agreement was amended so as to expand the possible uses by FACACH of the remaining $163,000 from basic grains to other crops, and to purchase of semi-capital goods. (This liberalization also applied to the BNF's use of the $744,000.)

Again, FACACH had some reason to feel rejected. It had come to be considered by other cooperatives in Honduras as a respected financial institution. As it had reminded AID "a number of times," the Fourth National Congress of Cooperatives in Honduras had passed a resolution in 1971 favoring the designation of FACACH as the financial agent for the entire Honduran cooperative movement. The resolution was ratified in the Fifth Congress the following year.[17] Ironically, AID was partially responsible for getting FACACH into this respected position. It had made sure, when designing the by-laws of the organization back in 1966, that it would be legal for it to lend to non-affiliated cooperatives. AID had pushed for these by-laws with the hope of eventually turning FACACH into the financial agent for the cooperative movement. This was exactly what the Honduran cooperative movement was pushing for six years later. But AID was by that time not interested in taking the opportunity, provided by the undisbursed $744,000, to directly back the expanded institutional role that it had

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[17] AID/LA, Office of Multilateral Coordination and Regional Social Development Programs, Social and Civic Development Division (MRSD/SCD), "The Credit Component: A Semi-Analytical Report to USAID/Honduras to Assist in Preparation of the Capital Assistance Paper for the 1974 Agricultural Sector Loan," by John Heard, April 1974, p. 44.

originally anticipated for the Federation. Finally, an AID evaluation itself noted in 1974 that "a number of co-ops and some federations prefer to borrow from FACACH for the simple reason that it is quicker and easier than the BNF (6 months to a year in many instances)."[18] Thus AID's choice of the BNF over FACACH for the $744,000, put together with the earlier transfer of these funds from FACACH to FECOAGROH, left FACACH feeling "robbed."[19]

AID's choice of the BNF was part of a more general focus on the Bank as conduit for a large lending program to small farmer groups. The sector loan, which was being designed at the time of the decision on the $744,000, envisioned the channeling of about $6 million in group credit through the BNF. FACACH, with an annual flow of credit of about $1.5 million compared to about $30 million for the BNF, could easily be considered too small for such a program (Table 2). At the same time, however, AID's choice of the BNF also reflected its disaffection from FACACH. Some of the above-cited criticisms of FACACH, after all, were just as applicable to the BNF. The Mission said, for example, that FACACH lent a good deal of its agricultural credit to AID-proscribed commercial crops. In 1974, 27% of FACACH's total credit was to non-affiliated coops,

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[18] Ibid., p. 46.

[19] Ibid., p. 38.

which were mostly coffee coops (20%) and other groups producing cash crops.[20] But of total BNF credit in 1974, the share of these same commercial crops was even higher--33% (Tables 3 and 4a, BNF chapter). Of the BNF's coop lending only, moreover, 90% of the value of loans granted was for the proscribed crops.[21] With respect to commercial-crop lending, then, FACACH was no more subject to criticism than the BNF.

Finally, the evaluations of the 018 small farmer credit program with the BNF had shown, previous to the 1974 decision to choose the BNF for the $744,000, that the extension assistance on these loans had also not materialized as planned.[22] Though these loans were to individuals and not groups, this finding nevertheless showed that the BNF had proven itself little better equipped to provide extension service with its agricultural credit than was FACACH. The problematic history of FACACH-AID relations, then, was an important determinant in AID's choice of the BNF over FACACH, though it was not the only one.

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[20] FACACH, Memoria Anual [1974], 1975, p. 13. FACACH's agricultural credit data does not allow breaking out loan value by crop and by type of coop. The non-affiliated coops are represented in the categories of "marketing" and "refinancing," as well as agricultural credit. FACACH data by crop shows 10% for coffee and 5% for other types of crops outside corn, rice, beans, and livestock (p. 16). This is inconsistent with, and less than, the figure I cite in the text for cash crops.

[21] I.e., cotton, bananas, sugar and coffee. AID/LA/MRSD/SCD, "The Credit Component," April 1974, p. 18.

[22] AID/H, "Estudio de evaluación del programa de crédito supervisado del Banco Nacional de Fomento," by Reinaldo W. Santos Santiago, USAID/ACDI-BNF, August 1972, p. 19.

Though AID left FACACH in a state of self sufficiency in 1972, and with several years' interest income to come from 018 credit, FACACH saw the AID termination as rejection. FACACH and AID grew apart, then, not only because the Federation had grown sound and independent. They went their separate ways because FACACH, as part of its growing process, had turned against AID and lost it as a promoter. AID, in turn, promoted another institutional approach to agricultural credit which was in some ways competitive with FACACH--or at least with what FACACH had hoped to do.

FACACH after AID. FACACH finally obtained $190,000 in financing in 1975 for a supervised agricultural credit program from the Inter-American Foundation (IAF). In Honduras and Ecuador, the Foundation has tended to finance many of the Christian Democrat organizations which work in the countryside and which often shun close association with foreign donor organizations. FACACH fits this mold in that it was identified until recently with the Christian Democrat umbrella organization, CONCORDE, and had reacted against the closeness of its AID relationship in the past. Ironically, the credit union federation in Guatemala also ended up with the IAF as benefactor, after having engaged in the same kind of conflict with AID.

An AID evaluation of the new IAF-financed FACACH program noted positively that the program was a departure from the usual in that it would not limit loans to a multiple of savings and that it was willing to "consider and even organize communal farming."[23] AID was now finding commendable, that is, an approach that it had considered financially unsound and outside the principles of credit unionism in the 1960s. At the same time, it should be remembered that one of the reasons for AID's shift from FACACH to FECOAGROH in the 1970s was that AID considered FACACH too "business oriented" and "middle class" to serve as the home of a group credit program for small farmers. FACACH could be criticized, it was said in 1974, "for an overly conservative credit policy and management."[24] Yet in the conflict between AID and the FACACH activists in the 1960s, AID was more on the other side. According to FACACH, that is, AID at that time was not letting FACACH do programs with peasants which did not require previous accumulations of savings. It was AID that was considered too business oriented by FACACH, and too wedded to the "conservative" principles of credit unionism. In a sense, then, FACACH was first held back by AID for being too financially radical and later was considered

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[23] AID/LA/DR, "Honduras - Agriculture Sector Program," 14 June 1974, Annex I, Exhibit C, p. 47.

[24] AID/LA/MRSD/SCD, "The Credit Component," April 1974, p. 44.

by AID to be too conservative. Finally, it was starting to be commended by AID for being less conservative.

It may be that FACACH is better able to handle a less conservative type of program now that it is a solid organization with no close creditor involvement in its affairs. (IAF has a policy of minimum involvement in the organizations it finances.) Or it may be that AID nipped in the bud the growth of a local organization that would have attracted committed and competent professionals and would have become an innovative and dynamic force in the Honduran development of peasant groups. Whatever the case, it is a credit to the Federation's power that such a small organization was able to muscle in as much as it did on the AID funds flowing into small farm agricultural credit in the 1970s. It successfully resisted AID's attempt to channel the $1.5 million in 018 funds directly to FECOAGROH. And it currently participates in the working group that sets policy on the distribution of AID agricultural credits through the BNF's Coop Window. In 1975, the FACACH representative was chairman of that group.

The Coop Window is virtually the creation of AID's sector program. Thus FACACH's participation in it, and access to its credit, represents a certain mellowing of the relationship with AID. This was facilitated, no doubt, by AID's admission in 1973 that FECOAGROH was really not able to handle the credit function for its coops. The admission was implied in AID's proposal in 1973 that the credit function should be given back to FACACH and that FECOAGROH should limit itself to marketing and input sales.[25] This aspect of the story is discussed in the FECOAGROH section below.

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[25]"Cooperative Development (Agriculture)," PROP 9 March 1973. The subsequent demise of FECOAGROH, brought on in part by FACACH's attachment of its assets, not only must have given vindictive pleasure to FACACH. It also removed a considerable thorn from FACACH's side in its relation with AID. The fact that AID did not come to FECOAGROH's defense with additional funding, and did not try to undo FACACH's actions, also removed some of the reason for resentment between the two organizations. The events of the 1973 period are described in the following chapter on FECOAGROH.

FACACH, Christian Democrats, and AID

In evaluating the impact of AID on FACACH's history, it is useful to trace what has happened to the Federation's Christian Democrat connections since 1971. In 1972, FACACH became a member of CONCORDE, a loose grouping of Christian Democrat organizations which includes FUNHDESA, a foundation that finances these other groups. Partly with its AID credits, FACACH has channeled financing to these groups, mostly through FUNHDESA. FUNHDESA, for example, received the largest single share of the $756,000 in 018 credit that was channeled through FACACH--$200,000. This was 26% of the total, and 39% of the FACACH share outside FECOAGROH.[1] This amount, in turn, was channeled to various member organizations, many of which are involved in organizing peasant groups--for marketing, input purchases, agricultural credit, group production, community action, and land acquisition. Thus although FACACH did not directly run the kinds of programs it wanted to in its early years, it came to support such programs in its role of financial intermediary.

In the last few years, a rift has developed between FACACH and other CONCORDE groups. CONCORDE considered FACACH

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[1]FACACH,"Summary Claim Reimbursement No. 25," 6-31 July 1974.

too conservative and too constrained by its "banker's mentality." FACACH, in turn, thought CONCORDE was meddling too much in politics.[2] Some of the original FACACH activists have now become managers of some of the CONCORDE-associated groups that were criticizing FACACH for being too conservative. These managers had left FACACH for the other groups because they felt FACACH was not activist and not dedicated to social change. In a sense, they were criticizing FACACH for having the qualities that AID had wanted the Federation to take on in the 1960s. Here was another case in which an AID-created organization, like FENACOOPARR in Ecuador, became more "businesslike" after AID left the scene. Again, this suggests that there is a certain contradiction between AID's presence in an organization for the purpose of teaching appropriate business practices, and the actual adoption of those practices by the organization.

The AID-promoted development of FACACH as a narrowly financial institution actually turned out to be to the advantage of the Christian Democrat groups. As in Ecuador, these groups jealously guard their independence and will not take the kind of donor involvement that usually accompanies direct AID programs. AID, in turn, has tended to stay away from these groups. With

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[2] Some FACACH members felt that FACACH itself was too "politicized." ATAC, "Survey of Honduras," in Final Report of an Evaluation of Latin American Confederations of Credit Unions (COLAC), OAD-A-CR-111 June 1975, p. 32.

FACACH as intermediary, however, these groups were able to receive AID funds in a way that did not bring AID involvement.[3] They were able to have a creditor that was more compatible with their style of operations than was AID.

In countries where the Christian Democrats form labor unions that are in competition with AIFLD-financed labor unions, the tendency of AID to stay away from the CD agricultural groups is increased.[4] In Honduras, for example, it is not only the Christian Democrats who are involved in successful union organizing among the peasants. The AIFLD program has also organized the peasants in an at least equally successful and powerful association, ANACH. This is somewhat atypical for AIFLD, which more commonly is involved with urban labor unions. In Honduras, then, AIFLD's activities with peasant farmers have put it into an unusual direct competition with the Christian Democrats in the realm of the organizing of peasant groups. Though ANACH and the Christian Democrats are to a certain extent in competition in their organizing, they have on many occasions cooperated in pressuring the government on agrarian reform.

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[3]As evidence of this lack of AID involvement, the auditors complained that FUNHDESA "did not keep adequate records" of the funds sub-lent to it by FACACH, so that it was "not now possible to tell how the borrower used the AID funds." AID/AAG/LA, "USAID/Honduras, Agricultural Development," Audit Report No. 1-522-75-3, 19 July 1974, p. 4.

[4]AIFLD is the American Institute of Free Labor Development, an affiliate of the AFL-CIO. It is financed with an AID appropriation and organizes free labor unions in countries outside the U.S.

It is too bad that AID has kept away from so many of these CD-related groups, for some of them are doing innovative work in the Latin American countryside. Their protectiveness and stand-offishness, of course, explains part of their distance from AID, as well as the fact that they often operate on a small scale. But these attitudes may also explain part of their success. It may be just as well for them, that is, that AID is not interested in assuming relations with them. At the same time, AID is missing out on learning about how their approaches to rural development problems have worked--and about how programs with little donor involvement work out. The experience of these groups may be able to provide AID with ideas for designing rural development projects that do not require the sometimes overwhelming and problematic level of AID involvement that is chronicled in these studies. In many cases, this involvement, by its very structure, stifles rather than promotes organizational growth.

Interest Income and Self Sufficiency

There is no obvious explanation of why FACACH's achievement of self sufficiency occurred in this particular case and not in so many of the others. Some clues are given by comparing the components of FACACH's income to that of FECOAC in Ecuador, a credit union federation that did not meet its self sufficiency target. The striking difference between the two is that "interest income" was a major component of FACACH receipts in 1974 and that it did not enter FECOAC receipts at all (Table 1). Credit to FECOAC affiliates, that is, went directly from the AID-capitalized Coop Bank and was not channeled through the Federation. I suggested in the Ecuador paper that FECOAC's self sufficiency problems were partially a result of this phenomenon--i.e., that AID channeled its cooperative loan funds directly to individual groups through the Cooperative Bank (BCE) instead of through the Federation.[1] Though the Ecuador arrangement may have been in the interests of the Coop Bank and of simplicity, it seemed to make more difficult the Mission's attempt to set up a self-financing credit union federation.

In Ecuador, FECOAC and CUNA had struggled in vain to get AID to directly finance a line of credit through the

[1] Pp. 43-59 of Ecuador volume.

Federation to credit unions. In the Honduran case, in contrast, the Federation was able to earn considerable interest income off the $500,000 in two-step funds and the $756,000 of AID/018 credit channeled through it to its affiliates. In Honduras, moreover, the idea of bypassing the Federation and providing AID credit directly to the credit unions through the National Development Bank never even came up. Indeed, if there was any struggle, it was in just the opposite direction. The Honduran government, that is, wanted to channel all the 018 funds through the BNF and not separate out a part for FACACH, as AID desired. AID took a strong stand on this issue, as discussed above, and ultimately prevailed; $1.5 million of the credit went to FACACH. In Ecuador, the situation was the opposite: the AID Mission insisted on channeling loans to credit unions through the Coop Bank, without the intermediation of the credit union federation.

FACACH's interest income from the 018 loan started to accrue in precisely those years when AID budget support was terminating. In 1966, AID provided $34,000 in grant support, amounting to 91% of FACACH's budget; and in 1971, its last year of budget support, AID provided $15,000 or 8%. The budget support from AID ended in 1971, CUNA technical assistance ended in 1972, and the 018 credit funds for FACACH affiliates started to disburse in 1971. The interest income on 018 credit, then, started accruing to FACACH in 1972, after the end of the AID relationship and not during it. In fact, AID's 1969 projection of FACACH income underestimated the future level of the Federation's interest income by 51% (Table 1). In the same projections, member dues, member shares, and earnings from supply sales were overestimated. (Insurance income was considerably underestimated.)[2]

AID's underestimate of the role of interest and insurance income and overestimate of member contributions and input sales illustrate the Agency's customary emphasis on income from dues and certain kinds of services as the way in which credit-union and coop federations are supposed to finance themselves. These latter sources of income are often not forthcoming, as was also seen in the Ecuador study. Generating them requires a relationship between the base-level groups and the federation that is often difficult to achieve. Interest income, it was argued in the Ecuador case, is in some ways a more feasible approach to gaining financial strength.

The substantial increase in interest income to FACACH, starting as it did after AID budget support ended, may have facilitated the transition from AID support to independence.

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[2] Both the absolute and relative contribution of insurance income was grossly underestimated. AID projected that it would be 3% of total income in 1973, and it turned out to be 38% in 1974. I was not able to learn the reasons for this discrepancy.

It was also a way for AID to support a sound institution without becoming involved in its operations. Of course, AID does not always remain uninvolved when it provides the opportunity to earn interest income through loan capital. Though the previous $500,000 in two-step credit to FACACH had been arranged for by AID with the idea that it would carry minimal lender involvement, AID was very involved with FACACH at that time through its grant project. Though the BNF also earns interest income on its AID-supplied credit, this income goes along with substantial AID involvement in the Bank's operations. FACACH's interest income from the 018 loan, in contrast, did not carry such involvement--for the Mission had shifted its institution-building interests to the BNF and FECOAGROH.

In the 025 loan, FACACH played an even more subordinate role than in the 018 program. It qualified along with other groups as an intermediate borrower of AID credits from the BNF's Cooperative Window, and no funds were earmarked for it. The credit available to FACACH under this arrangement was even further removed from AID, in that FACACH would be simply one among many cooperative borrowers. FACACH, in sum, was eventually looked upon by AID from a distance, as a solid and small financial institution through which some of its loan funds could flow without much concern.

FACACH may not have been able to maintain operating self sufficiency without AID's provision of capital and interest income after termination of the AID relationship. In a way, then, AID support of the institutional growth of FACACH actually continued after the termination of budget support, technical assistance and even good relations. The support simply took another form, in which AID involvement with the institution was minimal. This sequence is similar to the case of AID's relations with the Ecuadorean rice coop federation, FENACOOPARR. In that case, the period of AID budget support and technical assistance was much shorter than in the case of FACACH, because of conflict between AID and FENACOOPARR about management practices, ending in premature termination of the relationship.[3] After the break with AID, however, FENACOOPARR continued to be the recipient of substantial Coop Bank credit, which originated in AID loan capital. It is to AID's credit, in both the FACACH and FENACOOPARR cases, that it did not try to prevent its credit from flowing through financial institutions to other borrowers with whom it had once had direct relations, which had soured and ended.

The high share of coffee coops in the portfolio of FACACH can be seen as another sign of FACACH's independence from AID. The AID credit funds channeled through FACACH, that is, were not to be used for crops such as coffee, tobacco, cotton and sugar. This means that FACACH must have developed these

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[3] Pp. 60-86 of Ecuador volume.

clients and credit lines completely on its own.[4]

Arm's-length support. AID funds have on other occasions ended up supporting organizations with which it was never able to have the close relations typical of AID programs. The support was able to occur because the AID program was with an intermediary credit organization, standing between AID and the final borrower. FUNDHESA in Honduras, and the Christian Democrat organizations it financed, is a case in point--as discussed above.

The arm's-length or two-phased support of the above cases was not a deliberate AID strategy. Perhaps this way of providing credit ought to be sometimes considered as such. It allows AID to support certain organizations which are important to the development of small farmer organizations. For one reason or another, these organizations would not do well with AID in a direct relationship--as was the case of the later stages of FACACH in Honduras and FENACOOPARR in Ecuador, in addition to the Honduran Christian Democrat organizations. Providing uninvolved credit and interest income to an organization with previously closer AID support can also be a way of dealing with the almost inevitable resentment toward AID by such organizations,

[4] The importance of the coffee credit in FACACH's total portfolio is more evidence of the fungibility of outside financing with an organization's total resources.

when they gain their own strength. By planning to provide this intervention-free income at a later date, AID can also set a shorter and more credible deadline for withdrawal of its budget support and technical assistance.

In one sense, then, the greater distance between AID and FACACH after 1969 may have been for the best--even though it was caused by developments that were somewhat extraneous to the merits of the organization. The distance allowed FACACH to get AID-supplied income and loan capital "impersonally"--first from the 018 credit passed through it and later, from AID credit channeled through third parties like the BNF and the Latin American Confederation of Credit Unions, COLAC.

Diversification of Borrowers

Instead of diversifying its tasks, FACACH diversified its borrowers. It lent not only to affiliated credit unions, but to a group of non-affiliated and well-established agricultural coops. In 1974, these non-affiliated groups accounted for 40% of its lending (Table 4). The largest single share of that credit was accounted for by coffee cooperatives (20%), and the rest went to agricultural coops producing other crops (7%) and to industrial coops (10%). FACACH lent to the Christian Democrat groups through FUNHDESA, as mentioned above, which had nothing to do with credit unions. It even lent to groups for which it felt little sympathy--i.e., FECOAGROH. Thus FACACH was able to earn interest income that was totally unrelated to its credit-union membership. At the same time, it was able to broaden its capital base by a 10% "forced" capitalization charge on loans to these non-affiliated cooperative borrowers.

As a solid financial institution, then, FACACH was able to capture for re-channeling to other organizations loan funds that might otherwise have gone directly to their beneficiaries, or elsewhere. Because of the relative underdevelopment of financial institutions in agriculture, characteristic of most countries like Honduras, FACACH's financial capability enabled it to step into an important role, despite its smallness. FACACH ended up growing by specializing more and more in one task--financing. This was perhaps a more feasible path of growth than the multi-task programs that are often characteristic of AID-designed organizations.

In a sense, FACACH exceeded the objectives of the AID program that created it. Set up to finance and service affiliated credit unions, it did well enough at financing to acquire non-credit union borrowers and to obtain funds from third parties like the BNF and COLAC for channeling to such borrowers. In that a majority of its non-affiliated borrowers were in agriculture, FACACH actually became an institution of group credit in the agricultural sector--above and beyond fulfilling its role as a financial institution for its credit unions. As noted above, the Honduran cooperative movement voted in favor of making FACACH into the financial agent of the whole movement. Many coops preferred it over the BNF.

In 1975, the Cooperative Department of the government was threatening to rule that FACACH would have to have the Department's approval on every loan to a non-affiliate. If enacted, this ruling could severely hamper the Federation's lending to non-affiliates.[1] It is interesting that this successful aspect of FACACH's

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[1]ATAC, "Survey of Honduras," June 1975, p. 28.

development is now being legally challenged. AID went out of its way in 1966, after all, to draft the Federation's by-laws so that it could lend legally to non-affiliates. That the Cooperative Department took in FECOAGROH after the FACACH receivership--and that the AID sector program looks favorably upon a resuscitation of FECOAGROH by the Department--may explain why the Department wants to make such an unsympathetic ruling regarding FACACH. Ironically, the Cooperative Department is now the recipient of $300,000 in AID grant assistance, and figures importantly in the AID sector loan.[2] Hopefully, this undermining of one of the unexpectedly successful aspects of AID's program with FACACH will not occur.

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[2]The AID sector loan of 1974 required that the Honduran government increase the Coop Department's budget by $100,000 a year over the four-year period of the program--a 50% annual increase. AID/LA/DR, "Honduras - Agriculture Sector Program," 14 June 1974, pp. 156-157.

Stagnation of Membership and Organizational Growth

In the Ecuador report, it was noted that AID's coop and credit union programs were always under considerable pressure to show performance in the area of "numbers"--i.e., growth in the number of coops and in members (pp. 164-173). This kind of pressure could be counterproductive, it was argued, and performance in this area did not necessarily mean that the program's objectives had been achieved. In trying to understand the elements of the FACACH achievements described above, it is interesting to review FACACH's performance in the area of "numbers." With respect to the number of affiliated credit unions, there has not only been no growth in the last six years, but the number of affiliates has actually declined (Table 5). In the last four years, moreover, the membership of FACACH affiliates has not increased at all--though there was a 41% increase from 1969 to 1971. A recent evaluation of FACACH noted the lack of growth in affiliates and membership as "disturbing," and suggested that the Honduran credit union movement was "stagnating." The evaluation warned that "any organization which fails to watch over and develop its [membership] will, sooner or later, find itself in trouble.... Standing still is not an option open to the organization."[1]

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[1] ATAC, "Survey of Honduras," June 1975, pp. 31-32.

In light of the counter-productive aspects of the pressures to increase the number of members and credit unions, as described in the Ecuador report, one cannot help but wonder if FACACH's "stagnation" is part and parcel of its achievement in other areas. The stagnation in "numbers" over the 1969-1974 period is associated with an almost threefold increase in savings, as Table 5 shows. The value of loans granted to FACACH, moreover, has increased by 70% over the 1972-1974 period, and the number of groups lent to has increased by two-and-a-half times (Table 3). Stagnation in the growth of affiliates and membership, then, is associated with impressive growth in the Federation's role as a financial institution--especially for a period following the termination of AID support.

In trying to explain the stagnation of FACACH membership, the ATAC evaluation suggests that "FACACH has abandoned membership development and is concentrating its attention on developing new programs, searching for economic resources to keep them going, or, possibly, is just wandering without a sense of direction."[2] It may be, however, that neglect of membership growth is also a reflection of an exclusive concentration by the Federation on building up its sources of income--forced on it, in part, by its bad relations with AID.

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[2] Ibid., p. 32

The "forced" neglect of membership, in turn, has resulted in a single-minded concentration on the task of being a financial institution. Perhaps FACACH has <u>not</u> found itself in trouble then, precisely because it <u>has</u> failed to watch over the growth of its membership.

Ultimately, the Federation will have to grow if it is to represent a more significant share of institutional credit in Honduras. But a period of early "stagnation" in growth of affiliates and members may be necessary to such an organization's establishment as a solid financial institution. It meant that the organization could concentrate on a task that was much more limited than the range of activities usually prescribed by AID in such institution-building programs.

Conclusion

FACACH's surpassing of AID's project goals has not really been commended in AID's documentation. This is probably because of the FACACH-AID conflicts and because AID was preoccupied with explaining why FACACH did not qualify for an agricultural program. It may be, as AID said, that FACACH did not succeed in servicing its agricultural credit with technical assistance, or that it did not reach the smallest farmers. But this should not obscure the fact that this federation performed better than was expected as a financial institution. That it was "forced" to concentrate on the one task of financing, partially by virtue of not receiving AID support for other tasks--and that it remained small--are probably key factors in explaining this success.

FACACH's smallness and its single-purpose character were considered limitations by AID. They were the reasons for <u>not</u> giving the Federation an important role in agricultural credit to groups. With the advantage of hindsight regarding failures of alternative institutions like FECOAGROH, we should now be able to recognize the importance of these factors in creating an institution that was more successful in providing group finance to agriculture. That most of the non-affiliated coops financed by FACACH were among the better-established coffee coops does not invalidate the achievement of this AID program in financial institution-building.

It is important to look further at this case, not only because AID's institutional alternative to FACACH failed. But FACACH seems to have been in some ways more successful in managing group credit than the BNF, the major institutional focus of AID's agricultural credit programs. FACACH's delinquency rate, for example, is half that of the BNF. Though the BNF is many times larger than FACACH, and thus not strictly comparable, there may still be relevant lessons to be learned from the smaller organization's credit management. Finally, the conflicts between AID and FACACH in the late 1960s should not overshadow an unusual accomplishment of this program in its early phase: the attraction to an AID-created organization of a group of young activists concerned with social and economic change in the countryside. In general, FACACH merits further study as an organization which, without a special program in agriculture, came to be more competent than average as a provider of group agricultural credit.

Table 1

FACACH: Projected and Actual Income, 1968, 1973-1974
(dollar thousands)

Source of income	1968[a]		1973 AID projection[a]		1974 actuals[b]	
	Value	% of total	Value	% of total	Value	% of total
Interest[c]	10.0	6.7	130.8	68.2	198.1	55.3
Membership dues	10.0	6.7	35.0	18.3	14.1	3.9
Insurance	2.3	1.5	6.0	3.1	134.8	37.6
Supply sales	1.5	1.0	5.0	2.6	0[d]	-
Member share increases	3.2	2.2	15.0	7.8	0[e]	-
AID grant for operations	122.0	81.9	0	-	0	-
Other	0	-	0	-	11.2[f]	3.1
Total	149.0	100.0	191.8	100.0	358.0	100.0

[a]From AID/LA/DR, "Honduras: Agricultural Credit and Storage," 20 June 1968, Annex III, Exhibit 5, p. 1. I have excluded loan capital receipts and repayments as they are not included in the 1974 data.

[b]Based on lempira figures from FACACH, Memoria Anual [1974], 1975, p. 27. Converted at two lempiras to the dollar.

[c]Includes interest on loans, delinquency surcharge, and supervision surcharge.

[d]Reported as $26,800; sales costs also reported at $26,800.

[e]Reported as $10.

[f]These items did not appear in AID calculations. They comprise $5,050 for "interest received on shares" and $6,200 for "other income."

Table 2

FACACH and Honduran Banking System: Loans Granted in 1973
(lempira thousands)

Crop credit	Value: FACACH[a]	Value: BNF[b]	Value: Total banking system[c]	FACACH as % of: BNF	FACACH as % of: Total banking system
1972	1,231.6	23,544.0	61,918.0	5.2	2.0
1973	944.7	32,561.9	60,964.0	2.9	1.5
1974	1,264.6	50,617.1	n.a.	2.5	-
Total credit					
1972	2,996.8	49,203.0	483,913.0	6.1	0.6
1973	2,628.1	70,236.7	576,576.0	3.7	0.5
1974	5,145.2	80,342.4	n.a.	6.4	-

One U.S. Dollar = Two Honduran Lempiras

[a] Based on unpublished data from FACACH. Total credit figures include refinancing, much of which is for agriculture. In 1972, refinancing was L.489,177 or 16.3% of total credit; in 1973, L.359,474 or 13.6%; and in 1974, L.1,528,472 or 29.7%.

[b] 1973 and 1974 data from BNF, Memoria Anual - 1974, p. 4; 1972 data from AID/IDB/IBRD Agricultural/Rural Sector Survey--Honduras, Agricultural Credit, Annex 7 (Draft), 13 November 1974, p. 45. 1972 figure is probably inconsistent with 1973 and 1974 figures and on the low side, because AID/IDB/IBRD figures for 1973 are 23% and 16% lower than my BNF source. The AID/IDB/IBRD figures are nevertheless consistent with AID/BNF worksheet figures from the Honduras Mission.

[c] AID/IDB/IBRD, op.cit., p. 39. Excludes loans by credit cooperatives.

Table 3

FACACH: Loans to Credit Unions and Cooperatives by Use, 1972-1974
(lempira thousands)

Use	1972			1973			1974		
	Value	% of total	No. of loans[a]	Value	% of total	No. of loans	Value	% of total	No. of loans
Agriculture	1,231.6	41.1	54	944.7	35.9	58	1,264.6	24.6	69
Livestock	12.1	0.4	2	15.5	0.5	4	24.6	0.5	5
Marketing[b]	0	0	0	449.7	17.1	8	99.3	1.9	3
Refinancing[b]	489.2	16.3	-	359.5	13.7	-	1,528.5	29.7	-
Industry	438.3	14.6	2	149.0	5.7	3	872.9	17.0	11
Services	371.6	12.4	12	87.3	3.3	11	452.1	8.8	29
Housing	147.8	4.9	5	83.0	3.1	6	391.6	7.6	17
Consumption	97.3	3.2	10	81.0	3.1	9	51.0	1.0	8
Others	229.5	7.7	13	458.4	17.4	17	460.7	9.0	20
Total	2,996.8	100.0	98	2,628.1	100.0	116	5,145.2	100.0	162
No. of coops lent to			33			46			86

One U.S. Dollar = Two Honduran Lempiras

[a] Data does not give number of individual borrowers per loan, so it is not possible to calculate an average loan size per borrower.

[b] These categories include agriculture to an undetermined extent.

Source: Based on unpublished data from FACACH.

Table 4

FACACH: Loans Granted by Type of Borrower, 1974
(lempira thousands)

Type of borrower	Value	% of total	No. of coops
Credit unions	3,128.2	60.8	55
Non-affiliated groups			
Industrial coops	500.0	9.7	1
Agricultural coops	352.4	6.9	23
Coffee coops	1,039.9	20.2	4
Others	124.7	2.4	3
Subtotal	2,017.0	39.2	31
Total	5,145.2	100.0	86

One U.S. Dollar = Two Honduran Lempiras

Source: FACACH, Memoria Anual [1974], 1975, p. 13.

Table 5

FACACH: Growth of Affiliates, Membership and Savings, 1969-1974

	No. of affiliates	No. of members	Savings (lempira millions)
1969	114	20,800	4.4
1970	117	25,800	6.6
1971	125	29,300	8.6
1972	120	29,000	8.6
1973	110	28,100	10.8
1974	110	29,400	12.6

One U.S. Dollar = Two Honduran Lempiras

Source: ATAC, "Survey of Honduras," p. 31.

INTER-COUNTRY EVALUATION OF SMALL FARMER ORGANIZATIONS: HONDURAS

III - The Federation of Agricultural Cooperatives of Honduras (FECOAGROH): Anatomy of a Failure, and Its Accomplishments

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For Office of Development Programs of the Latin America Bureau of A.I.D.

III - The Federation of Agricultural Cooperatives of Honduras (FECOAGROH): Anatomy of a Failure and Its Accomplishments

List of Tables

Introduction

In 1967, the U.S. coop contractor, Agricultural Cooperative Development International (ACDI), proposed to the AID Mission in Honduras that it be given financing to organize 30 agricultural marketing cooperatives by 1970, and to form a federation of these cooperatives. The federation was to earn its income from grain marketing, and was expected to be financially self sufficient by 1972.[1] In 1968, the ACDI project was proposed to Washington by the Honduras Mission and approved as a $786,000 grant program for the 1968-1972 period.[2] By the end of 1973, when the project was terminated and after an extension of funds in 1972, grant spending had amounted to $965,000.

ACDI is a private non-profit corporation organized in 1963 as a specialized agency available to AID to promote agricultural cooperatives in the developing countries. Its members are large U.S. agribusiness cooperatives and its activities are almost completely financed by technical assistance contracts with AID.[3] It has come to be a competitor with the Cooperative

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[1] Agricultural Cooperative Development International (ACDI), "Report on Consultative Trip to Honduras," 27 October-11 November 1967, Appendix B. ACDI had already started organizing the cooperatives in 1967 under an AID Task Order.

[2] U.S. Agency for International Development, Honduras Mission (AID/H), "Cooperative Development (Agriculture)," Noncapital Project Paper (PROP), Project No. 522-11-990-074.2, Airgram TOAID A-384, 11 June 1968.

[3] ACDI, <u>A Resource for Agriculture in the Developing Countries</u>, n.d.; and ACDI, <u>Annual Report 1974</u>.

League of the U.S.A. (CLUSA) in vying for AID contract work in Latin America, even though CLUSA is among the member cooperatives of ACDI.

About the same time that the ACDI project began, the AID Mission started its discussions with the Honduran government concerning the $9.5 million Agricultural Credit and Storage loan (018).[4] After awhile, the Mission began to see the ACDI coops as a way of integrating small-farmer and cooperative features into the 018 program. The planned federation of ACDI coops, FECOAGROH, could market the grain production of member coops and channel AID/018 credit to them. Thus it was that AID changed its plans in 1970 to place $1.5 million of the 018 credit with FACACH for production credit and grain storage facilities, and decided instead to channel these funds to FECOAGROH.

FECOAGROH, created in December 1969, was not yet in existence when the 018 loan was authorized and signed. Thus the original loan agreement showed all of the $1.5 million going to FACACH, with no mention of FECOAGROH at all. The agreement was amended in January 1971, as told in the FACACH chapter above, so that the $744,000 in grain storage construction monies and a good part of the $756,000 in production credit were

[4]See pp. 1-19 of BNF chapter.

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to be administered by FECOAGROH instead of FACACH.[5]

In a somewhat cumbersome financial arrangement, discussed later, FECOAGROH was to receive its credit from the government through FACACH rather than directly from AID, the Central Bank, or the BNF. Both FACACH and FECOAGROH were to earn interest income for repassing the credit to the affiliated coops--6% for FACACH and 3% for FECOAGROH. The FECOAGROH coop could also take a cut of the interest that was passed on to individual member borrowers--up to 3%, for a possible total of 12% interest charged to the final borrower. (FACACH paid 2-1/2% to the government for a 20-year period, including 5 years grace at 2%; the government paid AID at 2-1/2% over a 40-year period, including 10 years grace at 2%.)

FECOAGROH was projected to be self sufficient by 1972 on an annual budget of $100,000, three years after creation by AID in December of 1969. Its income was to originate mainly from the profit margin on marketing the grains of member coops. AID and ACDI projected that FECOAGROH would have 30 member coops with 6,000 members by 1972, and would be marketing 22,500 tons of grain,

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[5] The loan agreement did not earmark shares of this credit fund for FECOAGROH and FACACH affiliates, though the implication was that FECOAGROH would use most of it, since FACACH was said not to have an agricultural program. In the end, however, FACACH affiliates accounted for 61% of the credit lent from the $756,000, and FECOAGROH, 39%. This was due in good part to the inability of FECOAGROH to place the credit. A good part of the FACACH share, moreover, was placed after the demise of FECOAGROH in 1973 and 1974.

mostly corn.[6] By the end of 1972, however, FECOAGROH was in bad shape. Though it had achieved its goal of organizing about 30 coops--though with half the projected membership--it was 95% dependent on AID for its budget. Grain marketing had not materialized to the extent projected, the coops were 50% delinquent on their credit owed to FECOAGROH, and production in some areas had been badly curtailed by droughts in 1971 and 1972.

In early 1973, FACACH became concerned about the delinquency problem of the FECOAGROH coops, whose credit had been lent by FACACH through FECOAGROH. FACACH conducted a field survey of the Federation's 29 coops, and found that 22 were seriously delinquent and seemed so fragile as to be unlikely to repay their credits in a reasonable period of time. Of the $294,000 of credit that had been supplied by FACACH to FECOAGROH's coops, $160,000 was delinquent. At about the same time, FECOAGROH declared the 22 coops ineligible for further borrowing until their delinquency problems were resolved. FACACH, concerned that it would never recoup the delinquent funds and that other creditors such as fertilizer dealers would act first, attached FECOAGROH's assets in June of 1973 and suspended lending to the 22 coops. It placed conditions on further lending to the seven solvent groups that in effect excluded them from borrowing.

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[6] AID/H, "Cooperative Development" PROP, 11 June 1968.

A solution to the problem, already of concern to AID in late 1972, was sought in a series of meetings and exchanges of correspondence between AID, FACACH, FECOAGROH, the National Development Bank (BNF), the Ministry of Economy, and the Cooperative Department of the government. None of the parties was able to agree upon an arrangement that would save the program. FACACH continued its attachment of FECOAGROH assets; the BNF would not or could not take over lending to the affiliated coops; the government was not willing to contribute its support; AID was not willing to intrude on the FACACH decision.

At the time of FACACH's action against FECOAGROH, the Mission had under consideration in Washington a proposed $481,000 extension of its FECOAGROH grant.[7] The new grant, to cover the 1972-1977 period, was to finance a revamping of the Federation, whereby it would retreat from corn marketing and credit and turn to input sales as its major source of income, with a secondary role for the processing and marketing of beans and rice. But FACACH's action, the Mission said, forced its hand. Without credit for the coops, the new program could not operate.[8] Thus AID decided in July of 1973 that it had no choice but to suspend

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[7] AID/H, "Cooperative Development (Agriculture)," Noncapital Project Paper (PROP), Project No. 522-15-810-074.2, 9 March 1973.

[8] AID/H, Letter of Mission Director to Minister of Finance and Public Credit, 11 July 1973; AID/H, Letter of Mission Director to Office of Development Resources, Latin America Bureau of AID, 19 July 1973.

its budget support and technical assistance to FECOAGROH--much to the consternation of ACDI, FECOAGROH and the stranded coops. Throughout this period, FACACH, and later the BNF, jockeyed for FECOAGROH's unused $744,000 for grain storage construction, which the Mission had said it was going to deobligate. Ultimately, the BNF won out, and the $744,000 was committed to it for use in the capitalization of a "Cooperative Window." The loan agreement was amended in April 1974 to allow this change to take place.

FECOAGROH disbanded rapidly in the summer of 1973 and its remains were taken into the Cooperative Department of the government. The Department agreed to contribute 4-6 staff members to the group, and budgetary resources of $18,000 for 1973 and $39,000 for 1974. This amount was small, of course, compared to the $100,000 annual budgetary level projected by ACDI and AID for 197[illegible], when FECOAGROH was to become self sufficient. As of August 1975, the 26 member coops were still in a state of expectancy about the resolution of the FACACH attachment of FECOAGROH's assets, which had made it difficult for them to get credit. Though almost half of the delinquent accounts had been paid off, $95,000 in delinquent accounts was still owed to FACACH, on which interest was being charged.

From its location in the Cooperative Department, the Federation has started an experimental program of vegetable-marketing in Tegucigalpa, involving seven of its strongest coops, located in the nearby Comayagua Valley. Five of these were created after the demise of AID's FECOAGROH program, and two are from the AID days.

The failure of FECOAGROH was attributed by AID and the contractor to three factors: (1) the Honduras-El Salvador war of 1969 resulted in the closing of trade between the two countries; El Salvador had been Honduras' principal market for grain exports, from which FECOAGROH was projected to make its profit margins; (2) the BNF decided in 1971 to monopolize the export of grain, because of the importance of that export market in the trade of the Central American Common Market; this meant that FECOAGROH would now have to sell its grain to the BNF at a lower price, instead of exporting directly; (3) many parts of the country's agriculture were affected by drought in 1971 and 1972; this was said to have caused the widespread credit delinquency discovered by FACACH in 1973 and that institution's adverse actions.

Other reasons cited for FECOAGROH's failure were (1) a considerable delay in the disbursement of the AID credit and grant funds, due partially to the difficulties in negotiation between FACACH and FECOAGROH, described in the FACACH chapter; (2) an unexpectedly high cost for the Federation's technical assistance to its coops, mainly in auditing and bookkeeping, and the fact that this activity did not generate income; and (3) limitation of the AID credit to basic grains and to certain kinds of inputs.[10]

In response to these adverse developments, ACDI and the Mission had proposed a marked re-orientation of the FECOAGROH program in March 1973, which involved substantial retrenchment in its credit and marketing activities.[11] Because of the delinquency problems of the member coops, it was proposed that FECOAGROH get out of the credit business and shift that function to a more experienced financial institution, FACACH. In this second stage of the program, it was proposed, emphasis should be shifted from grain marketing to input supply stores as a way of generating income for the Federation. In order to ensure a financially viable set of stores, the Federation would select locations where such stores were likely to do the best business, and then would promote coop membership in those areas. Also, it was decided that the size of the coops was too small for the purpose of generating income for the Federation. The 29 coops would be regrouped, therefore, into 15 large regional associations, to which new coops would be added.

In order to facilitate these proposed changes, ACDI and

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[10] These explanations were found in, for example, U.S. Agency for International Development, Latin America Bureau, Office of Development Resources (AID/LA/DR), "Honduras - Agriculture Credit and Storage - Loan 522-L-018," Action memo to the Deputy U.S. Coordinator, 22 February 1974; AID/H, "Request for Amended Authorization of Loan No. 522-L-018: Agricultural Credit & Storage," Memo to Office of Development Resources, Latin America Bureau of AID, n.d. [Fall 1973]; AID/H, "Cooperative Development" PROP, 9 March 1973; ACDI, "Informe Final," 30 June 1973.

[11] AID/H, "Cooperative Development" PROP, 9 March 1973.

the Mission requested that AID remove the restrictions in the loan agreement on the use of credit for operating-cost inputs only--such as fertilizers and seeds--so as to include small capital inputs like axes and machetes. In addition, they asked that financing not be limited only to basic grains and livestock, since many of the coops produced other crops. Particular reference was made to vegetables. Though AID finally agreed to broaden the limitations on the credit, this did not occur until April 1974, several months after FECOAGROH's demise. That this type of transition was proposed and accepted by AID, however, is important to an understanding of the program, as discussed below.

Failure and the Explanation for It

The story of FECOAGROH, its failure, and its abandonment by AID is one of the more bizarre ones in the history of AID projects. It involved the decision to channel a significant share of a capital loan through an institution that did not yet exist; the interposition of an extra institution in the chain of credit intermediation, FACACH, so that there were three intermediaries between the government and the individual coop borrower; the giving of power over FECOAGROH through credit intermediation to FACACH, an institution that was somewhat a rival and that could not be expected to act compassionately if the chips were to fall; the ultimate attachment of the assets of one AID-created organization, FECOAGROH, by another one, FACACH; the undisguised scramble of two AID-supported institutions, the BNF and FACACH, for the undisbursed AID funds of the third one, FECOAGROH, as soon as the latter revealed serious problems; and the complete and abrupt abandonment by AID of its newly-created federation along with the affiliated coops, also created by AID.

The explanation for the failure is, in a certain sense, just as strange. That the BNF monopolized grain exports and thus cut FECOAGROH out of its marketing margins was to a great extent facilitated by AID itself. One of the main purposes of the 018 loan of 1969 was to endow the BNF with enough capacity to stabilize prices. To this end, $3 million was allotted for the construction of storage facilities, which would bring about a sixfold increase in the BNF's capacity, from 10,000 to 60,000 metric tons. With this capacity, the BNF was expected to be able to handle 33% of the marketed crop of corn and beans by 1970 and 47% by 1975.[1] In deciding to monopolize the grain export market in 1971, the BNF ended up taking AID's idea a lot further than had been planned. Without AID assistance, ironically, the Bank might not have had the physical capacity to take the grain export market for itself.

I do not know whether AID knew of the BNF's decision or tried to prevail upon it not to take the step, in order to preserve FECOAGROH. But the BNF's decision in 1971 to monopolize grain exporting came before the program really got started. Even though the Federation was created in December of 1969, AID's grant funding for the program was not even available until April of 1971, and the 018 production credit did not start disbursing until March of 1971. So there was some time to modify the FECOAGROH program in that it was just getting started, if it is true that the BNF export monopoly of grains was to have the significant adverse impact on FECOAGROH income that was later ascribed to it.

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[1] AID/LA/DR, "Honduras: Agricultural Credit and Storage," Capital Assistance Paper, AID-DLC/P-744, 20 June 1968, pp. 39-44. For rice, the corresponding percentages were 50% and 60%.

The closing of the grain export market to El Salvador following the War occurred in 1969, moreover, before FECOAGROH was even created. It was only in mid-1972, however, that the War and the BNF grain monopoly were first mentioned by the contractor as causing problems for the FECOAGROH program.[2]

In the contractor's mid-1972 report, the only modification proposed to meet the grain-marketing problem was a shifting of emphasis from construction of the corn storage facilities to those for beans and rice. Overall, the contractor's report hailed the program's first full year as a good one--aside from mentioning some problems with credit (25% delinquency in 1971) and suggesting that the BNF might eventually take over this function. Grain marketing was "up 50% in 1971 over 1970," and was predicted to "show another gain this year, principally in marketing."[3]

If the grain export market was so important to FECOAGROH's survival, it seems that there would have been a more immediate reaction by the contractor and AID to the BNF monopoly action and to the closing of the border. One would think that the modifications proposed by AID for FECOAGROH in early 1973--steering the Federation away from corn marketing as a major source of income--would have been proposed in 1971.

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[2] ACDI, "Report on Consultative Trip to Honduras," May 28-June 4, 1972, p. 3.

[3] Ibid., p. 1.

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Also strange was the fact that AID would abandon an institution only three years after its start because of credit delinquency problems brought about by two years of drought. Drought and flood years are not uncommon occurrences in agricultural programs. Though they are disruptive and cause major setbacks, one does not usually see institutions designed to help small farmers go completely under as a result of drought. Indeed, because such institutions end up nursing their clients through such calamitous periods, the institution often emerges from the calamity with added strength--at least in terms of member allegiance. Not all of the coops, moreover, were affected by the drought; one-quarter of them were perfectly solvent when FACACH attached FECOAGROH's assets and AID abandoned the program. (I do not know if the solvent coops were also those that were not affected by the drought.) It was strange, then, to see AID abandon an institution-building program on the basis of such short-term adverse occurrences.

AID and ACDI, in sum, closed the case of FECOAGROH with the explanation of drought, war, the BNF grain export monopoly and, as a result, the credit freeze of FACACH. Though these occurrences were definitely adverse, there seem to have been other important causes for FECOAGROH's problems, as suggested by the evidence I present below.

My point in trying to re-do the explanation of the failure as it is written in AID files is not to set the record straight. No one will ever know, no matter how good the hindsight, whether the fate of FECOAGROH would have been significantly different without the occurrence of these adverse events. I want to show, rather, that FECOAGROH is an excellent case study of common AID approaches to project design and that some of the basic problems of the FECOAGROH story have appeared in other such programs. In contrast to occurrences like drought, these kinds of problems are within control of those who design, implement and monitor the programs. There were certain accomplishments in the FECOAGROH program, moreover, that were just as overshadowed in its dramatic demise as were its more pedestrian problems. The problems and the accomplishments of the FECOAGROH story, in short, have considerable relevance to AID's experience with cooperative programs in other places. Thus the importance of the story lies in its more typical features, rather than its bizarre ones.

The Grains Orientation

The FECOAGROH and 018 loan programs, as noted above and in the BNF chapter, were embedded in a strong policy emphasis of the Honduran government and the AID Mission on improving the conditions under which basic grains were produced and marketed--namely, corn, beans and rice. The FECOAGROH project was "aimed at rural families who are nearly in the category of subsistence farming."[1] The program was considered an experiment in mobilizing small producers of basic grains into groups, which would become viable through the economies of scale that were said to exist in group marketing and purchasing. Success in this experiment, AID hoped, would indicate a path toward a small farmer solution to the problem of increasing Honduras' grain production. FECOAGROH, then, was clearly marked as a basic grains and a small farmer program.[2] The Federation was expected to earn 60-70% of its income, moreover, from the marketing of grains.[3] Other ncome

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[1]AID/H, "Cooperative Development" PROP, 11 June 1968.

[2]Though the farmer described in the PROP is definitely a small one, there apparently was not as clear a focus in practice on small farmers as distinct from medium ones. At a Mission meeting reviewing a proposed extension of the FECOAGROH grant, "everyone came to the conclusion that the project managers should decide who they are aiming to help out. Should the project work to help small farmers or medium size farmers or large farmers?" This was being asked two years after the Federation was organized and four years after the coops started to be organized by ACDI. AID/H,"Minutes of the Agricultural Cooperative Development PROP Meeting," 4 February 1972, p. 1.

[3]ACDI,"Informe Final," 30 June 1973, p. 16. The PROP did not go into projections of Federation income, or how it would be derived.

would result from input supply sales and interest charges on credit.

<u>Producing grains and other crops</u>. With this strong grain orientation, it is a surprise to look at FECOAGROH's year-end report to AID for 1971, the first year in which the AID funds were disbursed to the Federation. (ACDI had been organizing individual coops with AID financing since March of 1967.) Twelve of the 28 coops produced only basic grains (Table 1).[4] Fourteen others produced basic grains along with something else: five with cattle, and nine with cash crops such as bananas, plantains, coffee, sugar, tobacco, vegetables. Of the two remaining groups, one produced bananas and sugar cane, and the other was a producer of feed-concentrate mix for poultry.

Farmers who engage in agricultural activities in addition to grain production often reserve a good part of the grains for their own consumption. These other activities, usually cash crops, will frequently predominate their marketed production. The La Subirana cooperative, for example, was listed as one of the coops producing grains along with other products--mainly plantains. When I visited the group in August 1975, it had 90 members and about 1,500 manzanas.[5] Four hundred manzanas

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[4]Table 1 excludes three of the 28 coops, for reasons given in footnote a.

[5]One manzana = 1.7 acres or 0.7 hectares.

were dedicated to individual plantain cultivation; a new 15-manzana collective plot was also planted in plantains; 700 manzanas were in individual pastures. (Cattle were not listed by the Federation as one of the groups' activities, and I did not find the coffee that was listed.) About 25% or 400 manzanas of the group's acreage was planted in individual corn plots. This would average 4-1/2 manzanas or a little more than three hectares per family, which would not give much for sale on the market after home consumption.[6] La Subirana received $2,400 of AID's FECOAGROH credit for corn production (Table 2). The coop's corn production, however, seemed to play a minor role in its marketed production, given the mix of activities on its landholdings.

The Federation's year-end report for 1970 showed the "area" for La Subirana to be 261 manzanas--compared to the 1500 I found in 1975. Similarly in 1973, a Mission tally of FECOAGROH

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[6] A BNF study of marketed grain production in 1971-1972 found that farmers producing less than 50 quintals of corn a year market only 10% of the first harvest and less than 20% of the second harvest. Those producing more than 100 quintals per year averaged 50-60% marketed shares. (Corn yields in recent years in Honduras have averaged roughly 10 quintals per hectare.) The marketed percentage is most likely an underestimate because of the droughts in 1971 and 1972, which were said by the BNF to have reduced corn production by 20%. U.S. Agency for International Development/Inter-American Development Bank/International Bank for Reconstruction and Development (AID/IDB/IBRD), "Agricultural Pricing and Marketing" (Draft), Annex 15 of Agricultural/Rural Sector Survey--Honduras, 6 August 1974, pp. 16, 24. Corn yields from U.S. Embassy, Guatemala, Office of the Agricultural Attaché, "Honduras: Grain and Feed," HD-5008, 6 August 1975, p. 2.

coops showed 261 manzanas of "area under cultivation" for La Subirana. Since the coop had not acquired additional land or membership in the intervening period of time, these figures must refer only to land in grain production. Even if the coop had increased its grain-cultivated area from 261 manzanas to the 400 I found in 1975, the number of manzanas listed for the coop still underestimates considerably its total utilized area--by 75%.

La Subirana was atypical of many of the coops, as discussed further below. But in that many of the other coops were also involved in cash crops and livestock production, the acreages listed for them are also likely to underestimate, or inaccurately represent, their total activities--the more so, the greater the share of the non-grain activities in total acreage. Indirect evidence of this can be seen in the fact that the share of the "cash crop" coops in total grain sales was only 8%, while their shares of the number of coops, members, AID/018 credit, own credit, and input sales were at least three times that of grain sales (Table 2). Though FECOAGROH and AID would have needed only the grain acreages for credit planning purposes, the total

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[7] AID/H, "Request for Amended Authorization of Loan No. 522-L-018," [Fall 1973], p. 16.

cultivated acreages would give a more complete picture of the group's productive activities and of the extent to which the groups were grain-marketing as opposed to grain-consuming groups.

The data on average holding per member of the FECOAGROH coops showed between 3 and 5 manzanas, except for an average of 12 manzanas for four coops in the department of Olancho (Table 2). Given the fact that these acreage figures may represent only a fraction of cultivated area, let alone member landholdings, there is no way of knowing if the coop members were actually small farmers.[8] More important, the acreage figures give an incomplete picture of the total productive activity of the FECOAGROH groups, leaving out the predominating role of non-grain production for some groups in their marketing activities.

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[8]FACACH reported after its survey of the delinquent FECOAGROH coops in 1973 that the Olancho coops in particular had many large farmers and non-agricultural members. The cultivated acreage data supports this observation. It shows these coops with grain acreage that is three times larger than the average --12 manzanas vs. 4 manzanas for the rest (Table 2). In that Olancho is a frontier region for agricultural development, landholdings do tend to be larger. But the average 12 manzanas of cultivated land probably represents much larger holdings, according to the experience with the La Subirana data. This would be consistent with FACACH's findings.

Producing almost no grains: three dominant coops. The total picture of FECOAGROH's affiliated coops was dominated by three coops for which grain production was minimal or nothing--CASMUL, Santa Rosa and, to a lesser extent, La Subirana (Table 2).[9] These three accounted for 70% of the capital of FECOAGROH's coops and were going enterprises before FECOAGROH started organizing.

CASMUL and La Subirana were groups of ex-banana workers who had acquired their lands from Standard and United Fruit companies, respectively, in the early and mid-1960s. CASMUL was engaged in highly technified group production of bananas (330 manzanas) and sugar cane (270 manzanas) under contract for Standard Fruit Company. Credit and technical assistance were covered almost completely by the contract with Standard. CASMUL was the most successful of the three, accounting for 43% of the working capital of all FECOAGROH coops in 1971 (Table 2). La Subirana had been less successful, partially because it had kept production to individual plots, in contrast to CASMUL; even its cattle pasturing was done individually. Santa Rosa was also well established before FECOAGROH came on the scene. In addition to producing poultry feed, it also provided its members with fertilizer, veterinary medicine and supplies, dairy equipment and

[9] Santa Rosa produced grains for feed-mix concentrate for poultry, but this did not fit within the concept of the program.

other farm supplies. In 1970, when FECOAGROH was created, Santa Rosa had a monthly sales volume of $15,000.[10]

I was not able to determine why these three groups joined FECOAGROH, since they would have had no need for the Federation's grain marketing services or technical assistance in cooperative formation. It may have been for the possibilities of credit, which is the only other way that FECOAGROH could have met their needs.[11] But CASMUL and Santa Rosa never received FECOAGROH credit; La Subirana received $2,400, an amount that was less than one percent of the total.[12] Though the ATAC evaluation suggested that CASMUL and Santa Rosa "seem to have added more to the

[10]Information in this paragraph from visits to La Subirana and CASMUL and from American Technical Assistance Corporation (ATAC), "Field Trip Background Report on Honduras," in Evaluation of AID and AID Contractor Programs in Promoting Cooperatives in Latin America, June 1971, pp. 79-80. The ATAC evaluation also pointed out the predominant role of CASMUL and Santa Rosa. ACDI had also mentioned the existence of CASMUL and Santa Rosa, but in a perfunctory way, without showing the role of the two in the indicators it used as a measure of progress. (ACDI, "Report on Consultative Trip to Honduras," 28 May-4 June 1972, p. 1.) This point is discussed further in the section on AID and the contractor.

[11]FECOAGROH's report for the first half of 1971 contained a list of "pending credits" to its coops which showed CASMUL with $432,000, amounting to 64% of the total (Annex III). Since the total, $672,000, was almost as much as the total amount of AID credit available through FECOAGROH ($756,000)--and more than twice as much as the $300,000 in AID credit that was ultimately disbursed to FECOAGROH coops--this credit must refer to loans that coops obtained independently of FECOAGROH. There was no such indication in the report.

[12]Federación de Cooperativas de Ahorro y Crédito de Honduras (FACACH), "Summary Claim Reimbursement no. 25," 6-31 July 1974.

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federation than they received" (p. 75), it may be that they had expectations of getting credit which were not satisfied. By 1972, CASMUL and La Subirana had withdrawn from the Federation. This left Santa Rosa accounting for a still significant share of the total at the end of 1972: 5% of total members in contrast to 17% of paid-in capital, 26% of the credit extended by coops from sources other than FECOAGROH, and 35% of sales of inputs to members.[13]

Pleas to escape grains. Another sign that the FECOAGROH coops were significantly involved in non-grain production was the plea by the Federation and ACDI in 1972 that the restriction of credit to grain production be removed.[14] To support this plea, the Federation and ACDI claimed that they could move a lot more credit and input supplies if they could finance activities such as livestock and vegetable growing, and input supplies other than seeds, fertilizer and pesticides. They said that the large

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[13]Absolute values for Santa Rosa and the total, respectively, are: members, 188 and 4,086; capital, L.41,956 and L.242,551; credit outside FECOAGROH, L.125,160 and L.487,296; and input sales, L.311,347 and L.895,069. From ACDI,"Informe Final,"30 June 1973, p. 15. Though the source indicates that values are dollars, they are lempiras.

[14]This was accepted by the Mission in early 1973, which requested an amendment to the loan agreement. (AID/H, "Cooperative Development" PROP, 9 March 1973.) The Federation also complained about the restriction against financing the sale of semi-capital goods like machetes and axes in its input supply operations.

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proportion of credit supplied by the member coops independently of FECOAGROH was a measure of this additional demand.[15] In the name of "diversification," AID finally agreed to broaden the eligible crops to include vegetables and livestock, and amended the loan agreement to that effect in April of 1974. Even if FECOAGROH had not failed, this loosening of the basic-grain limitation, while facilitating vegetable production, would not have made much inroad on a good part of the problem. For as Table 1 shows, many of the non-grain crops produced by the coops were those that are customarily proscribed by AID, and were specifically excluded in the loan amendment--i.e., coffee, tobacco, sugar cane and bananas.[16]

Grains coops, paid-in capital, and delinquency. There were other signs that the basic grains emphasis of the program was problematical from the beginning. In 1971, the FECOAGROH coops producing only basic grains accounted for 29% of the coops and 19% of the members, but only 6% of the paid-in capital, excluding the four large Olancho coops (Table 2). Adding the larger Olancho groups to these grains producers, one accounts

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[15] ACDI, "Informe Final," 30 June 1973, pp. 9-11.

[16] AID/H, "Second Amendment to Loan Agreement No. 522-L-018," 5 April 1974, p. 2. Bananas were not mentioned on this list, but they have customarily been excluded from AID financing in Honduras.

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for 43% of the groups and 38% of the membership, but still only 17% of the paid-in capital.

The ATAC evaluation found in 1970, moreover, that credit delinquency among the FECOAGROH coops was concentrated in the corn producing groups (p. 78). Thirty-six percent of the coops were found to be delinquent in their credit payment to the Federation in 1970; of these, an average of 12% of the value of the delinquent loans was unpaid. (The contractor reported zero delinquency for 1970; this figure was repeated in the Mission's 1973 request for a five-year extension of the grant funding.)[17] Though this rate of delinquency was not alarming for a new program, the evaluation ascertained only the delinquency of coops to the Federation, and not of members to their coops.

According to some who worked with the FECOAGROH coops during that time, delinquency of members to the coops was significant. The coops, it was said, would cover some of their delinquent accounts by repaying the Federation with funds out of their capital, so as not to lose their credit eligibility with FECOAGROH. If this was the case, then the delinquency of individuals to their coops would be higher than that of coops

[17] Contractor report was ACDI, "Report on Consultative Trip to Honduras," May 28-June 4, 1972, p. 1; AID request was AID/H, "Cooperative Development" PROP, 9 March 1973, p. 5. This type of inconsistency is discussed in the section on AID and the contractor.

to the Federation. Thus delinquency data that covered only the repayment of the coops to the Federation, as did the FECOAGROH data, would underestimate the seriousness of the arrears problem. Or, it would detect up-and-coming delinquency problems only with a considerable lag.

The significance of non-grain production: the farmer. That the non-grain production of many FECOAGROH coops was significant is not in itself a bad thing. Small farmers often do best when they are able to diversify their production, and alter their crop mix in response to changing price signals. The policy of AID in some countries to exclude various cash crops from small-farmer and cooperative financing can penalize the small farmer for his traditional risk-averting diversification practices, and can inhibit the flexibility of his response to price changes.

The AID crop proscription will often be unsuccessful because credit recipients will substitute the AID credit for other funds and use the other funds for the proscribed crops. Or, in a program where monitoring is difficult, the AID credit wi. end up directly financing the proscribed crop. These substitutions are more likely to occur in a program like FECOAGROH, where the allowed crop is a staple in the producer's home consumption (corn, beans, rice) and the proscribed crop is not (tobacco, sugar cane, coffee, bananas). Given the mix of cash and subsistence crops produced by many of the FECOAGROH coops, it is likely that a good part of the 26% of AID credit going to the cash-crop coops (Table 3) financed the production of tobacco, coffee, sugar cane, plantains and bananas--either directly or indirectly.

AID's crop proscriptions may succeed in limiting credit to the allowed crops by assisting farmers who have no other resources, or by choosing coops who plant no other crop but the allowed one. In such cases, however, the proscription inhibits farmers from choosing the crop mix that is economically best for them; it may limit them to an uneconomic or agronomically unsound monoculture in a subsistence crop. As ACDI ultimately pointed out, grain coops had a special interest in planting part of their lands in crops "more productive than grains," but AID financing was not applicable.[18] If the AID proscription against certain crops works, then, it makes it more costly for the peasant farmer to engage in his traditional spreading of risk, and interferes with the price signals that emanate from the market.

AID itself finally decided that its crop proscriptions <u>did</u> work when it agreed that their effect was to keep the credit from moving. Of the $756,000 of production credit for coops in the 018 program, only $300,000 was used by FECOAGROH over a

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[18] ACDI, "Informe Final," 30 June 1973, p. 11.

two-year period, for which ACDI and FECOAGROH were "strongly criticized by AID/Washington."[19] The Mission felt that further funds would be absorbed "during 1974 only if these new crops are eligible."[20] The resulting expansion of credit to the "diversified crops," of course, still did not cover the customarily proscribed coffee, sugar cane, tobacco and bananas.

<u>Non-grain production: the Federation</u>. AID's and ACDI's original decision to promote grain-producing coops and a grain-marketing federation was based in good part on the calculation that there were good profits to be had from grain marketing by an intermediating federation. "In the original design of the project, self-sufficiency [for the federation] was largely dependent on the revenues to be generated through FECOAGROH's marketing of corn."[21] This precluded consideration of the crop or crop mix that was most profitable for any particular coop or coop member--at a certain point in time, in a certain region and at a certain level of relative prices. When corn exporting

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[19] <u>Ibid</u>., p. 12. $163,000 remained unused when FECOAGROH fell apart in the summer of 1973; the rest had been channeled by FACACH to its affiliates for grain production credit.

[20] AID/H, "Request for Amended Authorization of Loan No. 522-L-018," [Fall 1973], p. 7.

[21] AID/H, "Cooperative Development" PROP, 9 March 1973, p. 3.

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proved unprofitable, similar reasoning was behind the decision of ACDI and AID to promote rice and bean production instead. Beans and rice, the Mission proposal for new financing said, "have higher marketing margins .... This should enable FECOAGROH to start improving its return on marketing activities."[22] The decision to switch to rice and beans, in short, was also based on considerations of what would sustain the Federation and the AID program best, and not the farmer.

It was not a bad thing, then, that the FECOAGROH credit ended up supporting coops producing crops other than grains. But this did not jibe with the basic structure of the project's design--i.e., that 60-70% of the Federation's projected income was to come from profits in the marketing of corn, and that roughly half the credit available to the Federation was intended for the construction of grain storage and processing facilities. Production of cash crops along with grains, in other words, could only mean trouble for the Federation's future. Though AID and ACDI perceived the problem three years after the formation of the Federation, it was clear from the start that the coops were diversified producers.

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[22] Ibid., p. 5.

Supplying Inputs vs. Marketing and Credit Services

In March of 1973, the Mission proposed $480,000 in grant financing for the 1972-1977 period to help move FECOAGROH to a second stage. The first grant had expired in 1972, when the project was to terminate; a short-term extension ($126,000) had been obtained for the first six months of 1973. In the proposed second stage, the Federation was to give up its credit activities to FACACH and to withdraw from corn marketing, emphasizing the processing and marketing of rice and beans instead. Its major focus was to shift to the supply of inputs to the coops, which was hoped to become the Federation's major source of income. The self sufficiency target was postponed six years, from 1972 to 1978. Part of the proposal involved a reorganization of coops into 15 regional associations. The input-selling goal took such primacy that the associations were to be located and new coops were to be formed where the potential for input sales was greatest.[1]

The proposed realignment of emphasis from marketing to input sales resulted in part from the specifics of this particular case--i.e., the loss of the grain export market in 1971. It is not an uncommon evolution of events, however, as

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[1] AID/H, "Cooperative Development" PROP, 9 March 1973.

discussed later in this section. The data on this program show, moreover, that the coops and the Federation did at least as well in selling inputs as they did in marketing and credit from the beginning. They did not do as well, in other words, in carrying out their primary functions as they did in an activity that was not the programmed focus of attention.

The evidence for the greater agility of the program with input sales than with credit and marketing is the following. In the pre-drought year 1970, the value of input sales of FECOAGROH and the coops was greater than that of credit--by 13% (Table 4).[2] These sales were also greater in value than the sale of grains marketed through the coops--by 22%. In 1970, of course, FECOAGROH production credit to the coops had barely started, amounting to only $86,000; in 1971, this credit increased by two-and-a-half times to its highest level.[3] Thus it would

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[2] I have excluded from all the data three large and unrepresentative coops--La Subirana, CASMUL and Santa Rosa. In 1971, for example, these coops accounted for 70% of the capital of the FECOAGROH coops and 36% of the input sales (Table 2). I exclude them because they distort the data considerably and were virtually uninvolved in grain production as the program envisioned it. Further description of these groups appears on pp. 20-22 above.

[3] As stated above, ACDI said that AID/018 credit did not start to disburse until March of 1971, and cited this delay as one of the reasons for the problems of the program. The contractor's data does not indicate if this 1970 credit figure for FECOAGROH represents an advance, or credit from other sources and/or credit that was used only for the Federation and not channeled to the coops. The only possible source of additional credit would have been AID grant funds. See footnote b to Table 4.

seem that, in 1970, the relation of credit to input sales and other measures would have been abnormally low--and that in 1971 the relation would be significantly higher. But in 1971, when credit was greatest, input sales of the coops and FECOAGROH were still greater than credit--this time by 8% (Table 4).

In 1972, when the effect of the previous drought year first started to show up in credit and sales figures, credit dropped by a greater percentage than input sales. Thus in 1972, input sales were significantly greater than credit in comparison to 1971--by 60% instead of 8%. It is impressive that, upon entering the second year of drought, total input sales to the coops not only maintained their pre-drought levels but increased slightly, by 4% (Table 4). (This increase in sales was all FECOAGROH's, while outside suppliers showed a slight decrease. One would have expected a decrease in the purchase of inputs after two years of drought.

This mid-drought input-purchasing activity of the coops suggests that the effect of the drought on the coops may not have been as widespread as was thought.[4] The maintenance of previous levels of coop activity during and after the

[4] In its final report to AID, ACDI also noted the "high value of fertilizer sales" despite the drought, and attributed it to the "positive results of the educational program of the cooperatives." ACDI, "Informe Final," 30 June 1973, p. 17.

drought, moreover, means that the coops as a group were doing better than one would think from the subsequent failure of the program.

In 1970, credit to the FECOAGROH coops was slightly greater than the value of the harvest marketed through the coops --by 8% (Table 4). (The Federation had not yet started marketing.) But input sales were even greater in relation to the value of marketed production--by 22%. In 1971, when the drought caused reduced production, credit turned out to be 3.1 times greater than the value of marketed production. But input-sales value was again even greater--3.4 times the value of marketed production. Thus in the year in which credit was greatest (1971), it was still not as important as input sales. And in the year in which marketed production was greatest (1970), credit was again less important than input sales. (There were no production data for 1972.) In both years, moreover, input sales were greater than production marketed by the coops and the Federation.

Though the principal purposes of the FECOAGROH program were marketing and credit, in sum, the values of credit and marketed production were always considerably less important than that of input sales. It can be argued, of course, that marketing never really got a chance to get off the ground. It cannot be denied, however, that input sales <u>did</u> get off the ground and marketing did not.

Because the selling of inputs by FECOAGROH coops was consistently more successful than the provision of credit or the marketing of production, it is no surprise that AID and ACDI proposed in 1973 that the Federation give up the credit function to FACACH, retrench on marketing, and turn its attention to input sales. What is surprising, however, is that more than half the input sales, the credit and the group marketing were done <u>without</u> the intermediation of the Federation. In all three years of the program, that is, more than half the value of these activities was carried out by the coops themselves (Table 4). Since this achievement involved some conflict in goals between the Federation and the coops, discussion is postponed to the following section.

"What's Good for the Federation Is Good for the Coops"

In the above sections, I have suggested that some of FECOAGROH's problems were apparent in 1970--before the drought years--and in the design of the program itself. The attention that ACDI and AID focused on the drought, the war and the BNF monopoly obscured the fact that there were more serious problems in the program's design and execution--problems that, unlike the drought, were more subject to program control. In this section, I want to show how these problems resulted to some extent from an exclusive concern with the financial viability of the Federation as opposed to that of the coops.

An assumption of AID-financed coop programs has been that the formation of coop associations and federations are natural outgrowths of the development of individual cooperatives. Coops, it has been implied, do not fulfill their potential unless they are ultimately linked to a federation. As the Mission stated in a project document,

> What is good for the FECOAGROH is good for the rural cooperatives. And what is good for the rural cooperatives is good for its members .... What is good for the Honduran farmer-member of a cooperative is also good for the National Federation.[1]

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[1] AID/H, "Draft Cooperative Development PROP," 26 January 1972, p. 14.

Let us look at these assertions in light of the experience with the FECOAGROH case.

Coops on their own. The performance of the coops in obtaining their own credit and input supplies is a good example of the difficulty of positing that the good of the federation is the same as that of the coops, and vice versa. In 1971, when AID/018 credit to the coops through FECOAGROH was greatest, the coops on their own supplied 51% of the credit to their members, 68% of the inputs, and marketed 75% of the production that was not marketed individually (Table 4). The rest of the coops' supply of credit, inputs, and group marketing was obtained through the Federation. In 1972, though the coops' share of input sales was not as great in 1971, it was still more significant than that of the Federation--61% vs. 39%. In 1972, moreover, the coops supplied an even greater share of their own credit than they had in 1971--60% vs. 51%.

The "outside credit" obtained by the coops on their own amounted to $507,349 during the period of the AID/FECOAGROH program--from 1970 to 1972 (Table 3). This was 82% more than the AID/018 credit supplied through the Federation. During the longer 1967-1972 period, moreover, the coops had obtained $785,000 in outside credit. Of this latter total, [illegible]% was from FACACH, 24% from the BNF, and the major part was from "other sources"--mainly, commercial input suppliers. The rate of interest on this credit fell between 9% and 12%, very close to the 9% charged by FECOAGROH to its coops for AID/018 credit.[2]

Both before and after the drought, then, the coops on their own were contributing more than FECOAGROH to their supply of credit--and at reasonable interest rates. They were also contributing more than the Federation to input sales and group marketing. This lesser role of the Federation cannot be attributed to problems with the drought and the grain export market; for these adverse events affected the coops as well as the Federation. The greater role of the coops, moreover, was apparent even before the drought.

To say that the FECOAGROH coops on their own did better at what the Federation was set up to do for them is an incomplete description of what happened. After all, the program that created the Federation also created the coops. The ability of the coops to obtain credit, to market their product, and to buy inputs as groups was certainly an outcome of the organizing assistance of the AID/ACDI program and, later, of the Federation. The program and the Federation, in short, played an important role in forming and advising groups that were able to go after services on their

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[2] Data from ACDI, "Informe Final," 30 June 1973, p. 9. Two commercial houses listed by ACDI as supplying credit at 11-1/2% and 9% were, respectively, Casanova e Hijos and Astro-Agrícola.

own. The services were not only of benefit to the members, but they were of a type that could generate income for the coops--though not for the Federation.

The positive side of the FECOAGROH story, then, is that the program and the Federation had some success in organizing coops that might become financially self sufficient--even though this coop self sufficiency was not necessarily compatible with Federation self sufficiency. In a sense, therefore, the Federation was more successful as a public-sector-like organization, supplying non-remunerated services, than as a business undertaking--a point I return to later.

The Federation as minority supplier. In the pre-drought year 1970, AID questioned ACDI as to the role of FECOAGROH in the coops' credits. ACDI responded that the Federation was supplying only "35 to 50%" of this credit, a result of the fact that the Federation was "just getting started."[3] The availability of the AID/018 credits, ACDI said, "will help change this situation rapidly in the near future." But in 1971 and 1972, when 018 credit was in full swing, FECOAGROH's share of the coop's credits did not increase. As pointed out above, its 49% share in 1971 fell to 40% in 1972 (Table 4). How could this consistently

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[3] ACDI, "Memo to AID Mission," 20 January 1971, p. 1.

minority role of the Federation in the coops' credit be explained, given the availability of $756,000 of AID/018 funds for production credit?

That coops obtained credit and inputs outside the Federation, ACDI said, was indicative of a buoyant demand for credit and supplies. This demand could be supplied by FECOAGROH instead of others, it was argued, only if AID restrictions on financeable crops and inputs could be relaxed. Since these other suppliers were charging scalpers' prices, the contractor said, it was only a matter of making the goods available to the coops at lower FECOAGROH prices to get them to change their buying habits.[4]

On other occasions, the coops' purchase of credit and supplies outside FECOAGROH was attributed to their "disloyalty" to the Federation. (This argument was used more with respect to input sales than credit, since ACDI was already looking in 1972 for ways for FECOAGROH to get rid of the credit function. Buying credit and input supplies outside the Federation meant that third parties were getting the return from supplying these services, rather than FECOAGROH. The coops, it was proposed,

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[4]These arguments appear in bits and pieces in various documents. Their most complete presentation is in ACDI, "Informe Final," 30 June 1973, pp. 8-12; and AID/H, "Cooperative Development" PROP, 9 March 1973, pp. 3-5.

should be "cured" of their lack of allegiance by courses in cooperativism. The courses would "provide FECOAGROH with an opportunity to explain its services and to make a pitch for greater loyalty" with respect to input purchases.

It was contradictory, of course, to argue that coops were disloyal for buying elsewhere and at the same time to say that they bought elsewhere because they could not get what they wanted from the Federation. The one argument implied that coops should buy Federation supplies even though this might involve a sacrifice like higher prices; the other implied that coops would gladly buy Federation supplies if they were available, because their price would be lower. Whatever the explanation, FECOAGROH's share in its affiliated coops' credit and sales never rose significantly.

The distribution of the coops' credit and input sales between the Federation and outside sources portrays a surprisingly healthy picture of the coops. But it was not taken that way by ACDI and AID. For example, the contractor frequently referred to the "higher interest rates"[6] at which the coops obtained their third-party credit. One of the main reasons for creating a federation, it was said, was the inability of such groups to

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[5] AID/H, "Cooperative Development" PROP, 9 March 1973, p. 4.

[6] E.g., ACDI, "Informe Final," 30 June 1973, p. 10.

obtain credit and other inputs on their own and at reasonable prices. But it could be seen from the contractor's own reports, as cited above, that this outside credit was obtained at between 9% and 12%--almost the same as the rate charged FECOAGROH to its coops (9%). These were excellent rates for coops on their own, and for a total amount of credit that was greater than that supplied by AID to the coops during the three-year course of the program.[7] That the Federation had a minority role as credit and input supplier, then, also meant that the coops had been successful in securing a considerable amount of credit on their own and in setting up direct input-supply relationships with local merchants.

The low share of FECOAGROH in the coops' credit and supplies also meant low income for the Federation. This was another reason that the coops' high share was not depicted as good. Mainly for this reason, ACDI and AID ascribed part of the program's problems to the fact that the coops were "small" and

[7] Table 4 shows total coop credit during the 1970-1972 period as L.1,064,155 and total FECOAGROH credit as L.831,583. (One U.S. dollar = two Honduran lempiras.) This latter figure is inconsistent with the total figure of L.588,556 for AID/018 credit that was disbursed to the FECOAGROH coops through FACACH (Table 3). The discrepancy may be due to other sources for FECOAGROH credit such as the AID grant for cooperative development--as suggested in footnote b of Table 4--and/or use of credit by the Federation for its own operations rather than rechanneling to the coops.

"inefficient."[8] Such small groups could not generate the income on sales and marketing necessary for the Federation to survive as a business. But in light of the coops' performance on their own, relative to that of the Federation, the opposite hypothesis on their size and efficiency is just as plausible: i.e., the Federation may have needed an inefficiently large coop to generate the necessary volume of input and grain sales.

The Federation's achievement and its undoing. The moral of the above findings is that the Federation played an important role in organizing small farmers into groups, and in teaching them how to make credit and wholesale buying arrangements from third parties. But when it came down to the actual buying, the coops revealed a preference for non-Federation supplies. Whether the reason was better prices or AID restrictions on financing is irrelevant. In the end, the program set up to bring together coops and Federation supplies did not work well--whether for price or supply reasons. At the same time, it did work in organizing some coops and in enabling them to get together with third-party suppliers for credit and inputs.

Though this partial success of the FECOAGROH coops was a tribute to the AID program and the Federation, it also

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[8] E.g., AID/H, "Project Agreement No. 522-10-73," Project Activity No. 522-15-810-074.2, 2 February 1973, p. 3.

meant poor performance on the part of the Federation in its business activities. For this reason, perhaps, the coops' performance was not looked at by AID, FECOAGROH and ACDI as an achievement, distinct from the failure of the Federation. Indeed, as seen above, they looked at the coops' activities with third parties as a problem. What was good for the coops, in other words, was not good for the Federation.

If certain supply activities work well at the coop level, then this takes away the private-sector, income-earning justification for coop federations. It also means that the economies of scale assumed to be inherent in carrying out various operations at the federation level do not exist for certain operations or at certain stages of coop growth. Though the economies-of-scale justification is a standard feature of AID's coop projects, no studies have been made of AID coop projects to determine whether the returns to various group operations have indeed been greater at the federation scale than they are at that of the individual coop. Since AID's coop projects hold the implicit assumption that economies are greater at the federation level, and since this inter-country evaluation contains considerable evidence to the contrary, AID would benefit from evaluating the several cases it has at its disposal with respect to this specific question.

The progress of the FECOAGROH coops in securing inputs and credit was not seen by AID and ACDI as something to encourage, something on which to base a modification of program design. What was proposed instead was a complete revamping of the coops that would help FECOAGROH get at the income that the coops were earning by themselves. In a sense, this was already reflected in the Federation's allocation of credit to the individual coops. There is a remarkable similarity, that is, between the share of coops in total outside credit and their share of AID/018 credit channeled through FECOAGROH. The five coops that accounted for 20% of the number of coops and 60% of outside credit were the same five that accounted for the largest share of AID/018 credit--64% (Table 6). The Federation's credit, that is, went to those coops that were best at getting credit on their own.

Giving free assistance. The justification of ACDI and AID for the proposed remodeling of FECOAGROH was in terms of what would be good for the Federation. On closer examination, however, some aspects of the plan would not necessarily be good for the coops. To alleviate FECOAGROH's problems, AID and ACDI had proposed a retreat by the Federation from credit, a partial withdrawal from grain marketing, and a considerable pullback from "free" technical assistance. In place of these activities, the Federation was to move into input supply sales.

Credit, it was said, should be transferred "to institutions with more experience in these fields."[9] Corn exporting had been put out of business by the BNF monopoly, so there would be a shift to the marketing of beans and rice. Free assistance would be abandoned because it did not earn anything for the revenue-starved Federation. The education and cooperative extension services supplied by the Federation, it was said, had required a sizeable field staff. "These activities, though important, were not designed to be self-financing and have represented a substantial addition to operating costs." Thus this "non-revenue producing activity" would be "trimmed back"[10] and input sales would be given more emphasis, as a less problematic way of earning income.

ACDI had argued that the member coops' high percentage of input purchases from other suppliers demonstrated the existence of a good market for the Federation in this type of sales activity.[11] But since it also demonstrated that the coops were engaging successfully in this activity on their own, it also meant they might not really need Federation-supplied inputs. What they may have needed more was the "free" technical assistance that the

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[9] AID/H, "Cooperative Development" PROP, 9 March 1973, p. 3.

[10] Ibid.

[11] ACDI, "Informe Final," 30 June 1973, p. 11.

Federation was going to abandon in the name of sound finance. It was this assistance, after all, which had gotten the coops to the point in 1970 and 1971 where they were getting a majority of their credit and bulk inputs on their own. A self-financing cooperative federation, in sum, did not seem instrumental to the success of the individual coops.

A "free" technical assistance program by an institution with other means of support might have been more compatible in this case with the objectives of creating individual coops. But that would mean, in most cases, a government-subsidized program. This was against the philosophy of AID's coop contractors, who believed in maintaining considerable distance from the public sector. The private sector, according to the coop ideology, offered freedom from government intervention and the opportunity for coop democracy.[12] But in AID's programs, where coops and federations were created almost in the same breath, freedom from public intervention did not necessarily guarantee anything

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[12] An ATAC evaluation of credit union federations and their regional confederation, COLAC, pointed out the "stark contrast" between COLAC's "traditional stand" on this issue and the actual practice of some of the federations--commending the latter. ATAC contrasted "the acceptance, if not the reaching out at the federation level for government assistance whenever it could help the movement," with the fear of COLAC management "of encroachment and takeover by governments if [they were] permitted to become involved." ATAC, "Survey of Honduras," in Final Report of an Evaluation of Latin American Confederations of Credit Unions (COLAC), OAD-A-CR-111, June 1975, p. 27.

concrete for the coop. The young private-sector federation, in its scramble for revenues, could not help but sometimes act against the interests of the individual members.

The retrenchment of a marketing program like FECOAGROH, and re-orientation toward input sales, was not unique to this particular case. A similar change occurred in the CREA program in Ecuador, where a program to organize and assist coops in grain marketing did not do very well and evolved into a less ambitious program of setting up coops around input supply stores.[13] The difference between CREA and FECOAGROH was significant in determining the form that this re-orientation took.

CREA was a regional development agency financed out of public revenues. It started out to help coops do their <u>own</u> grain marketing and shifted to helping them set up their <u>own</u> input supply operations. In the FECOAGROH case, the assisting organization was supposed to organize the grain marketing, and later the input selling, around itself. For CREA, the transition to stores would have no impact on the financial status of the assisting agency. It was done simply out of the belief that input stores were a more manageable undertaking for the coops at that point than marketing. In the FECOAGROH case, the transition was based on a calculation of what would help the assisting

[13] This aspect of the CREA story is discussed on pp. 144-146 of the Ecuador volume.

institution. That coops did all right in input supply operations was taken not as a sign of what they could do on their own, but of where there were income-earning possibilities for the Federation. FECOAGROH <u>had</u> to worry about things like that. CREA, whose income was not dependent on its coops, did not.

<u>Marketing beans and rice instead of corn</u>. The proposal for a Stage II salvation of FECOAGROH illustrates in another way how concern with the Federation's revenue-earning blocked out important considerations at the coop or farmer level. AID and ACDI agreed in 1973 that FECOAGROH should shift its marketing emphasis from corn to beans and rice.[14] The BNF monopolization of the grain export market had undermined the Federation's corn-exporting plans, it was said, and better marketing margins could be obtained from beans and rice--partly because of the returns from processing and the freer domestic market.

Whether it was more profitable for the coop farmers to substitute bean and rice production for corn was not considered. Since Honduras' small farmers produced all three commodities, one might think that a shift in marketing emphasis from one to another would not make that much difference in production patterns. But corn is produced to a much greater extent in

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[14]AID/H, "Cooperative Development" PROP, 9 March 1973.

Honduras than beans and rice. The area planted to corn in the 1970-1972 period was more than three-and-a-half times that in beans and 23 times that in rice.[15] Among the FECOAGROH coops themselves, corn hectareage financed with coop credit was seven-and-a-half times that of bean hectareage, and five times that of rice hectareage.[16]

A switch from the marketing of corn to beans and rice, then, might well have been predicted to induce some changing of crop mix--whether in response to the availability of credit or to FECOAGROH urging. The desirability of such changes, however, was decided only in terms of expected profit margins per unit marketed by the Federation. There was no concern as to whether the necessary volume of bean and rice production would be forthcoming, or whether it would be economically desirable for the farmers and the coops to alter their crop mix.

[15]Annual average thousand hectares planted was 269.4 for corn, 73.6 for beans, and 11.5 for rice. AID/IDB/IBRD Agricultural/Rural Sector Survey--Honduras, Statistical Annex, 13 December 1974 (Draft), p. 13.

[16]The figures are:

	No. of manzanas	
	1973	1974
corn	2,129	4,240
beans	281	565
rice	378	825
Total grains	2,788	5,630

1 manzana = 1.7 acres or 0.7 hectares. From FECOAGROH, "Utilización de recursos a ser prestados durante 1973 y 1974," Cuadro Anexo 4, n.d.

Cooperative size. There were other ways in which the need to build a self-sustaining federation on the heels of the individual coops led to the pursuit of goals that were not necessarily in the interest of the coop. From the start, for example, ACDI had projected ideal coop size as 200-300 members.[17] In retrospect, an ACDI manager said in 1975, the projection was too low, and should have been at least 300 members.[18] The rationale for these minimum sizes was that they were necessary in order for the Federation to achieve the volume necessary to operate profitably in grain marketing.

A few years into the project, it was found that most of the FECOAGROH coops tended to be smaller than the ideal. The ATAC evaluation noted that only two of the FECOAGROH coops had 300 or more members, and that there was not enough potential for such large memberships in the communities served.[19] In mid-1972, ACDI noted that the membership count was "well below the average of 200 per society which was projected," but said that

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[17] The Mission proposal for the FECOAGROH program shows the size of a "model" coop as 300 members and the ACDI proposal shows 200 members. AID/H, "Cooperative Development" PROP, 11 June 1968, p. 15; and ACDI,"Report on Consultative Trip to Honduras," 27 October-11 November 1967, Appendix B, p. 2.

[18] As told to me at ACDI headquarters in Washington, D.C., June 1975.

[19] ATAC,"Field Trip Background Report on Honduras,"June 1971, p. 74.

"a vigorous new member campaign is planned for the near future."[20] By 1973, only three of the 25 groups had more than 300 members, and two more groups had between 200 and 300.[21]

AID and ACDI decided in 1973 that the only way to deal with the "numbers" problem was to "concentrate membership in a fewer number of regional coops, perhaps 15 in total, each having a membership potential in excess of 300.[22] In this way, the desired economies of scale would be achieved. (By the time this proposal emerged in 1973, AID and ACDI were thinking more of input-supply than grain-marketing operations for the Federation; but they applied the economies-of-scale argument equally to the new activity.)

The experience with agricultural coops in Latin America shows that the more successful coops tend to have less than one hundred members.[23] Or, those that start out large often end up smaller, as a result of a winnowing process. The smallness, as discussed in the Ecuador report, is apparently important for

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[20] ACDI, "Report on Consultative Trip to Honduras," 28 May-4 June, 1972, p. 1.

[21] Table 1 for 1971; for 1972, ACDI, "Informe Final," 30 June 1973, p. 15.

[22] AID/H, "Cooperative Development" PROP, 9 March 1973, p.

[23] United Nations, Research Institute for Social Development (UNRISD), Cooperatives and Rural Development in Latin America: An Analytic Report, by Orlando Fals Borda, Vol. III of Rural Institutions and Planned Change (Geneva: United Nations, 1971); my Ecuador volume, pp. 206-218.

gaining the benefits of group cohesion and loyalty. Interestingly, one of the drafts of the AID Mission proposal for financing the remodeling of FECOAGROH has scribbled in the margin a reference to the finding of the UNRISD study--namely, that "homogeneous groupings," which were said to be smaller, were better.[24] But the reference is made in support of the idea of putting the small groups into regional associations. A new type of grouping was proposed, in other words, because the FECOAGROH coops were found to be unsuited to the size dimensions necessary to help the Federation earn money. The new grouping, it was expected, would result in those scale economies, even though it might not be optimal from the point of view of the individual coop.

AID was proposing to create still another type of organization, in sum, after creating some successful coops from scratch and being unsuccessful at creating a federation from scratch. The new type of arrangement was meant to save the unsuccessful organization, rather than to capitalize on the gains made with the successful ones.

Less democracy. There was another area in which the pursuit of a viable federation ran counter to that of creating viable cooperatives. One of the justifications for approaching small

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[24] AID/H, "Draft Cooperative Development PROP," 26 January 1972, p. 1.

farmers through coops and federations instead of government assistance programs is that the coop institutions are supposed to be democratic and free from intervention. Their leadership is supposed to rise from the ground up. This is contrasted with the top-down, "paternalistic" approach of government programs, which often ends up as intervention in the lives of those on the bottom. The evidence presented below suggests that FECOAGROH, and to a certain extent the coops, did not grow from the bottom up. The program, in fact, was not only top-down but it was also "outside-in," conceived as it was by institutions based outside the country.[25]

FECOAGROH was a creation of AID and the contractor, and not of the individual coops. That was the way it had to be, if a federation were to be created almost immediately on the heels of the coops. As part of the planning for self sufficiency, for example, ACDI projected that its Honduran staff would eventually be transformed into FECOAGROH management, with salaries totally paid by the Federation. "By 1971," ACDI said,"the Federation

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[25]I.e., AID and ACDI. A considerable number of Peace Corps volunteers, moreover, worked as coop promoters. At a meeting to discuss a draft of the Mission proposal to renew FECOAGROH funding in early 1972, it was suggested that the Federation should "devise plans from the bottom up. Plans cannot be imposed from the top down, because each cooperative has its own unique set of problems and needs to be treated differently." AID/H, "Minutes of the Agricultural Cooperative Development PROP Meeting," 4 February 1972, p. 2.

should have developed sufficient volume and resources so that it can begin to absorb the ICDA staff. One of the Assistant Directors should become Manager of the Federation. Ultimately, all of the Extensionists should become Federation employees."[26] Staff chosen by ACDI, in short, was to graduate to FECOAGROH management.

As part of the proposed remodeling of FECOAGROH, ACDI and AID proposed to organize coops and regional associations in areas where the potential business for an input supply store was good:

> A computer aided study has helped FECOAGROH to pinpoint the regional areas where it should focus its efforts.... [The study] then ranked as prime targets for coop development those municipalities which had year-round access to transportation, a large number of farmers located relatively close together and a high production potential. In the identified priority areas in which a store is not already in existence, a survey will be carried out by FECOAGROH to determine potential sales volume, competitors' prices and margins. If the store seems feasible from the standpoint of the survey, FECOAGROH will send its promoters to stimulate membership.[27]

It was pointed out parenthetically that, in the past, the Federation "relied solely upon member coops to expand membership."

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26 ACDI, "Report on Consultative Trip to Honduras," 27 October-11 November 1967, Appendix B, p. 6. ACDI was called ICDA at that time (International Cooperative Development Association).

27 AID/H, "Cooperative Development" PROP, 9 March 1973, p. 4.

Thus the Federation was to no longer rely on people in the communities involved to promote organization of coops, but would instead send out its own promoters. Locations would be chosen, not on the grounds of local interest and grouping capabilities, but according to whether an input supply store would be profitable. Whether the coops wanted regional association was treated as an assumption rather than an issue. That is, one of the two "assumptions related to outputs" was that existing FECOAGROH affiliates would "accept consolidation into 15 regional cooperatives."[28] In order to pull itself together and earn revenues, then, FECOAGROH needed to become less democratic with its member coops.

Even before the Federation was created, the proposed FECOAGROH program did not bespeak the "democracy" that is supposed to inhere in the coop approach to development problems. The Mission's 1968 proposal for the program portrayed the farmers to be organized as somewhat unwilling and undesirable characters. "The potential membership" of the program was described as "the 'unwashed' variety, with little sophistication in agriculture and the related economic and commercial realities." The proposal also described the target group as

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[28] Ibid., p. 9.

> farmers [who] do not spontaneously organize activities for their own benefit. Natural cooperation is rare .... Farmers are distrustful of their neighbors and often relinquish opportunities in order to maintain their 'independence'

Whether or not these characterizations were accurate, they certainly did not convey the sense of a cooperative venture undertaken by the Honduran peasants with the assistance of the AID contractor.

Not only were the farmers to be organized described as unwilling, but the contractor and the Federation were in some cases trying to organize where there was resistance to it. An AID officer, upon returning from a field visit to the El Porvenir pre-cooperative, reported that

> in the six hours that we were in the community we couldn't get more than two or three members to meet with us. This pre-cooperative... [has] been slowly disintegrating...for lack of enthusiasm.[30]

On another occasion, a FECOAGROH extensionist, reporting on his visit to the pre-cooperative Lamani, noted that

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29 AID/H, "Cooperative Development" PROP, 11 June 1968, pp. 7, 11.

30 AID/H, "Memo re Visits to Cooperatives," 24 August 1972, p. 2. The writer suggested that one problem that "may account for the unwillingness of the community to organize is the drought which has ruined from fifty to ninety per cent of their corn production."

> The pre-cooperative has 13 members at the present moment, a very small number in relation to the effort and sacrifice that I am making. The farmers clearly need the cooperative, but in spite of my explanations in weekly meetings they are still distrustful.[31]

These reports seem to bear out the characterization of the farmers by the PROP as an unyielding group. But even if these two cases are not representative, they show in some cases that the contractor and the Federation had to do considerable cajoling of farmers to organize and, in at least some cases, to keep the group together once it was organized. This conveys more of a feeling of paternalism, of the kind spurned by the ideology of the coop movement, than of coop democracy. Even if this were the only way to get coops organized in such an environment, it seems to lay a shaky foundation for such a group. AID's technical assistance in organizing coops, moreover, is said to be meant for showing farmers who <u>want</u> to organize how to do it.

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[31] FECOAGROH, "Informe diario de las actividades del extensionista contador," 3-9 April 1972. Translation mine. The writer added that one of his problems in organizing was that the leaders of the local ANACH subsectional were "coming out against cooperatives and prohibiting their member farmers from participating in the FECOAGROH-promoted organization." ANACH is an association of peasant unions, also financed by AID to a certain extent, through AIFLD. An AID/H memo attached to this report suggested that the problem was just the opposite--i.e., that "FECOAGROH contributes to division and weakening of campesinos as force for land reform and social justice in countryside.... No reason why FECOAGROH coop members shouldn't be members of ANACH." AID/H, "Memo re FECOAGROH/ANACH Cooperation," 5 May 1972.

As another example of the arbitrary tone of the program, the proposal said that "in no instance will cooperatives be organized to manage communal production."[32] Yet Honduras, unlike most Latin American countries, is known for the propensity of many of its peasants to engage in communal production. Some of the successful small-farmer organizing campaigns in the country have involved groups producing communally. Finally, after FECOAGROH was formed and started experiencing problems, ACDI suggested in mid-1972 that the Federation must tackle the problem of "lack of cohesion between FECOAGROH and the present member societies."[33] This referred in part to the "loyalty problems" discussed above, concerning the coops' purchase of inputs from sources other than the Federation. The concept of federation, in short, did not seem to sit well with the base-level coops.

That coop federations are often not distillations of leadership and desires that rise up from the bottom is no revelation. But if one perceives the way a FECOAGROH is formed and gets its management, then one sees that this type of coop federation comes very close in some ways to the top-down public

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[32] Ibid., p. 14. Actually, the program's most successful coop, CASMUL, engaged in the communal production of bananas and sugar cane. CASMUL was formed independently of FECOAGROH. (See pp. 20-22 above.)

[33] ACDI, "Report on Consultative Trip to Honduras," 28 May-4 June 1972, p. 4.

sector approach from which it is supposed to differ. If it is true that the AID-financed federation does not emerge from the member coops, then there is less justification for promoting it in place of public sector assistance to individual coops.

Perhaps AID's preference for private sector organizations to help new coops really expresses the desire for a committed organization, rather than a democratic one. Government assistance programs, it is feared, will act against individual coop preferences and will be vulnerable to pressures from other interest groups. Newly created coop federations, one would think, would be more singlemindedly committed to their clients and less likely to be coopted by the elite. But in pursuing their own financial health, AID-supported coop federations get put at cross purposes to their constituents no matter how committed they are. A coop federation, then, does not necessarily produce the advantages that are supposed to make it superior to public sector assistance to coops.

AID identification with the federation. A final contributor to the problem of contradictory objectives between federation and coops is the very presence of AID. As between coops and federation, AID comes to identify more and more with the federation. AID is involved, of course, as monitor and as arbiter of whether the project will receive new funding. The federation offices and the AID Mission are often in the same city, as in the case of FECOAGROH. The federation managers are closer in class and culture to AID officers. The federation, after all, is a process by which AID extricates itself from involvement with individual coops and hands this function over to a local institution. It is only natural that the needs of such a program would be expressed to AID through the eyes of the federation--and the contractor.

The relationship between AID support and the federation's progress as a business operation is direct and obvious, in contrast to that between AID and the individual coops. Any move that improves the federation's business position brings it closer to success as an AID project. Any such progress lessens the need for renewals of AID assistance and wards off questioning of AID officers as to why the federation has not yet made it. There is every reason, then, for AID to identify with the federation and to throw its weight behind its income-generating moves--even when this inadvertently goes against the interests or desires of the coops. Indeed, AID often ends up pushing the federation further in this direction than it, the federation, wants to go--as in the case of FENACOOPARR in Ecuador.

In its identification with the cause of the federation as a business, AID can lose sight of the areas in which there is a conflict in goals between the development of the federation and that of the individual coops. It can add to the rift by throwing all its technical assistance and wisdom behind the effort to make the federation into a competent business. If the federation can make good money by selling inputs to the coops, for example, then AID promotes such a plan, as it did with FECOAGROH. This happens even though the coops are already arranging considerable input distribution by themselves--and even though the coops may be more interested in gaining other types of supplies or services from the federation. In the case of FENACOOPARR in Ecuador, as another example, AID pushed the Federation to get its rice-processing and input-selling capacities into order, so it could generate the income that would make it self sustaining. The Federation, however, wanted to strengthen its land adjudication and organizing capacities. Even though these latter services did not necessarily generate income, they were what drew the coops to the Federation in the first place and kept them loyal.

As the self sufficiency target date approaches for an AID-financed project, the federation is often nowhere near the target. When this happens, the income-generation concern becomes more and more paramount for AID and the federation, resulting in a kind of panicked neglect of the coops. In the case of FECOAGROH, the Mission admitted that "there has been a tendency to promote FECOAGROH as an end in itself," even though the Federation's activities had been linked to stated goals in the design of the project.[34] This comment went on to say that the problem was a result of the demands made on AID and the Federation for information indicating progress toward the project goals. "The only information, or numbers, available are those which describe FECOAGROH, the mechanism."[35] My argument suggests that, in addition, the information relevant to progress of the coops is often ignored. Or it is overshadowed by the fact that it may be bad news, in revenue-earning terms, for the federation.

Abandoning the coops. When FECOAGROH failed, AID abandoned the individual coops on the grounds that, without the Federation, there was no reason for a program. FACACH's credit freeze on the FECOAGROH coops, the Mission wrote to Washington, "completely undercut FECOAGROH's recovery strategy on which our further assistance was to be based, and since the situation appeared irreversible over the near term, we decided to pull out."[36] Before this decision, the Mission had made various attempts to get either the BNF, FACACH, or the Coop Department to take the individual coops, if not the Federation, under their wing. The

[34] AID/H,"Mission Comments to AIDTO A-240," 3 February 1972, p. 1.

[35] Ibid.

[36] AID/H, Letter of Mission Director to LA/DR, 19 July 1973, p. 1.

Mission had also made clear its willingness to fund any such rescue attempts with the undisbursed 018 funds.

When the Mission's attempts to find a rescuing institution got nowhere, it did not consider direct AID relief to the coops out of the unused 018 or other funds. There was no AID attempt, in short, to assist directly the good fraction of coops that were solvent and the several others that might have been able to come out all right with a little assistance. Some of the coops, after all, could have been salvaged with a little clemency on their credit repayment terms. In contrast, AID's Stage II proposal for revamping the Federation was a more comprehensive and costly operation. On the verge of Washington approval a few months before the FACACH credit freeze, the plan involved $480,000 over a five-year period, in comparison with the delinquent credit of the coops, which amounted to $150,000.

There was some concerned dissent expressed in Washington over the abandonment of the coops along with the Federation.

> If, indeed, the delinquency in these co-ops is due to the conflict with El Salvador, the take-over of corn marketing by the BNF and the drought, has consideration been given to government indemnification, i.e., to the government making up a suitable proportion of the losses by itself repaying part of these co-ops debts? [37]

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[37] AID/LA, Office of Multilateral Coordination and Regional Social Development Programs, Social and Civic Development Division (MRSD/SCD), Letter of AID/Honduras, 21 August 1973, p. 2.

Taking this reasoning one step further, one can see even more logic in suggesting that AID, rather than the government, take over responsibility for "indemnification" in this case. It was AID, after all, that brought these farmers into a scheme that was so vulnerable, from the start, to the kinds of events cited in the letter above. For whatever the reason, the concerns expressed above were not heeded, and AID pulled out of the project completely. Thus AID abandoned in midstream a group of individual coops that, with a little more assistance, might have become firmly established.

In one sense, the coops were worse off for their relationship with the Federation and AID. It will be remembered that seven of the 29 FECOAGROH coops were solvent, and were not implicated in the delinquency that led to FACACH's attachment of FECOAGROH's assets. These seven, however, were denied credit by FACACH after its credit freeze. Stringent conditions were newly imposed on them by FACACH, which they could not meet. Because of their association with FECOAGROH, in other words, the solvent seven were not able to obtain credit for the planting season that year.[38] In mid-1974, moreover, the Mission reported that the continued receivership of FECOAGROH and the lack of further

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[38] AID/H, Letter of Mission Director to Executive Vice President of ACDI, 20 August 1973, p. 2.

credit was weakening the cooperatives.[39] In August of 1975, the Federation was still under FACACH receivership, two years after the FACACH action had taken place. Of the $150,000 in delinquent accounts, $98,000 was still overdue. This kept the coops in an outcast position in the credit market.

In the FECOAGROH project design, the coops had been the prime project objective and the Federation was posited as one way of working toward that objective. When the Federation proved unviable as an <u>instrument</u> of achieving that objective, and when the progress of some of the coops suggested that the Federation was not crucial to their existence, this was not taken by AID as a signal to switch instruments. Instead, the coops were abandoned, even though they were not all unviable and there were other less complicated instruments for helping them. It seemed as if the failure of the individual coops, even though they were formed under an AID program, was not as damaging for AID as was the failure of the Federation. Conversely, salvaging some of the individual coops and helping them achieve success on their own, without the Federation, was perhaps not an important enough achievement for AID to be worth sticking its neck out for.

The conclusion of the story is not that a mistake

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[39] AID/LA/DR, "Honduras - Agriculture Sector Program," Capital Assistance Paper, AID-DLC/P-2051, 14 June 1974, Annex I, Exhibit C, p. 50.

was made. It is, rather, that even though coop federations are set up by AID as instruments, the dynamics of the situation often cannot help but turn them into ends in themselves. The federation as end, in turn, tends to take precedence over the goal of creating successful coops. This instrument-turned-end obscures the points at which the interests of the federation are at loggerheads with those of the coops. Finally, letting the federation become an end in itself can lead to inadvertently cavalier treatment of the small farmer by AID--as illustrated by the story of FECOAGROH. The concerned Washington office cited above had good reason to be "worried that the 'small' farmer may lose most in the outcome of the current hassle."[40]

As discussed in the Ecuador report, part of AID's inability to respond to the signals of a situation like FECOAGROH results from its contracting out of such programs and their justifications to certain types of contractors. Only two contractors have been used for most of AID's coop projects in Latin America--CLUSA and ACDI. For these contractors, the concept of a federation or other private association of individual coops has been a <u>sine qua non</u>. If AID would use contractors who were more neutral on the issue of federation--or would itself become more active in the thinking on these projects--then the cards would not be so stacked against the possibility of responding more positively to circumstances like those leading to FECOAGROH's demise.

[40] AID/LA/MRSD/SCD, Letter to AID/H, 21 August 1973, p. 1.

Federation as Marketing Business

Much of what has been said above boils down to a simple distinction between the goals of a production business and a marketing business. The project proposal and evaluation literature of AID portrays coops and their associations and federations as involving the banding together of certain types of producers in an effort to improve their lives. Though this portrayal is not inaccurate, it leaves out the fact that coops and federations are two different kinds of businesses. Coop members get together as agricultural producers, whether or not they farm together. A federation, in turn, has marketing (or input supply) as its primary activity. It carries out this activity on a larger scale than the individual coop, and further down the line than the individual coop.

The coops and the federation, then, are centered around two distinct stages of the production process--agricultural production for the coop and the marketing of agricultural products for the federation (or the marketing of agricultural inputs). These different stages involve different kinds of skill, commitments and production rhythms. Thus when one function is placed in an organization like a coop, and the other in a separate organization like a federation, this introduces a certain break in the desired social unity of the undertaking. Each organization must develop the specialized behaviors best suited to its task.

To separate the stages of production into two organizations makes sense from an efficiency point of view. That is how the process is organized in the private sector, after all, before the federation comes on the scene. But this functional separation also makes the organizational health of the marketing group, the federation, dependent on making a profit or a decent income off the other group, the coop. If the federation is to ensure its own survival, in other words, it has to behave toward its member coops in some ways like the private market intermediary which it is supposed to replace. In addition, the peopling of coop federations by AID- and contractor-selected managers, usually from the urban elite, delineates the boundaries between the two different organizations even further. One ends up, then, with two distinct groups for the two stages of the production process, each internally homegeneous and different from the other.

Backward vertical integration. The problem involved in creating two separate groups does not result from having created an assistance program for coops. Rather, it is that one has created two businesses at successive stages of the same production process with the directive that both should do well as business organizations. In project justifications, this process is portrayed as if it were like vertical integration forward from production to marketing: farmers are grouping together to get control over a stage of the production process that is one step further down the line. A federation, however, represents more the creation of a separate marketing business than the vertically forward expansion of farmer groups into marketing. Thus the vertical integration inherent in the design of AID coop projects sometimes represents more the aspirations of the project designers than the organizational reality that emerges.

If vertical integration describes the process that takes place in AID coop and federation programs, the direction of the integration is better described as backward than forward. The AID-created marketing federation, that is, ends up exerting control over the decisions of the coops--as was seen above. This happens because of the organizational asymmetry of the situation: the federation needs to make money off the coops in order to survive, but not vice versa. The federation, by virtue of its AID sponsorship, has budgetary resources and management skills that are superior to the coops.

When the federation does not evolve naturally from established coops, in short, it is not likely to represent increased control by peasants and coops over an important stage of the production process. The agricultural production and marketing process may remain just as unintegrated as before, with the only difference being that there is another intermediary on the scene. The point is not academic, since it shows the inaccuracy of one of AID's justifications for creating federations to service individual coops instead of servicing them in other ways.

Thus it is that AID's federation projects frequently experience a particular evolution--as in the case of FECOAGROH and FENACOOPARR. In accordance with their rhetoric of unified effort and integration, they start with a "technical assistance stage." In this stage, they earn little revenue and are popular with the coops. Then their lack of revenue starts to threaten their survival as organizations. They move to a "business stage," therefore, in which they decide what services to supply on the grounds of what will earn them income. They now see themselves more as a separate business than as an institution promoting and assisting individual coops. It is at this point that they start to experience some disaffection from the coops.

Integrating forward instead of backward. There are at least two ways for AID to avoid the problems described above. One is to refrain from grouping the groups into an AID-sponsored federation, and to wait until that initiative flows up from the groups themselves. If it does, the federation's activities will represent a genuine expansion of production groups forward into the next stage of the production process. These types of federations or associations, of course, may also end up at cross purposes with the groups that spawned them. But the original groups will be at a stage of growth where they at least have the strength to control or bargain with the group they created. When individual groups have not gotten together into a federation on their own, AID has taken it as a sign of the need for outside assistance in this effort. But this can also be taken as evidence that they are not strong enough to be able to utilize and support a federation; or, that they can be adequately served as individual groups by the private and public sector.

Another way to avoid the problems discussed here is through the subsidized supply of assistance to farmer groups by an organization that is not dependent on the groups for its income--i.e., a public sector or private voluntary organization. Such an organization, at the least, does not need to take decisions against the interests of its client coops in order to survive as an organization. AID's role, moreover, should not necessarily be limited to making the entity assisting the coops into a self-financing organization. Just as important, it can give assistance that helps empower the individual coops to the point that they can get direct access to existing government and private-sector services and supplies. This was one area in which FECOAGROH showed some success, as discussed above.

Some of AID's coop programs have been moving in this direction, though not necessarily because of the problems with coop federations nor as a result of explicit policy. In Honduras, for example, the institutional focus of AID's interest in farmer groups has moved from the two private federations, FACACH and FECOAGROH, to the government Cooperative Department, the agrarian reform agency, the development bank, and the extension service.[1] This has been with a view to building up the ability of these groups to provide services to small farmers in groups.

Integrating sideways: the banana coops. The experience of the banana cooperatives in Honduras has some bearing on these problems of farmer coops and marketing federations.[2] The process by which some of these cooperatives of ex-banana workers became successful was one of horizontal rather than vertical integration. After establishing

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[1]The shift has not been complete. The government Coop Department and the program it has with AID look toward the resuscitation of FECOAGROH within the Department. The Federation would be re-created and financed out of a government office, however, which represents a sharp break with the desire of the coop contractors, and the tendency of AID, to steer their coop programs clear of the public sector.

[2]The information for this section is based on visits to four banana coops and on the following documents: Instituto Interamericano de Ciencias Agrícolas de la O.E.A. (IICA), Estudio sobre organizaciones campesinas en Honduras, by Noel A. García, April 1974; and Enrique Astorga Lira, Estructura agraria en el Valle de Sula, (Tegucigalpa: INA, rev. ed. 1975).

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themselves on the basis of banana production, they expanded into the production of other crops, rather than taking on another stage of the production process like marketing.

Guanchías, the most successful banana cooperative, expanded into activities that its own farmer-members could do and that were complementary to banana production. The coop's new swine production activities, for example, make use of unmarketable bananas for feed; and swine production requires little additional land. The coop is engaging in some production of other crops, moreover, which have a time pattern of input needs that help smooth out the peaks in demand for banana labor. The new worker-run enterprise at Isletas, an ex-banana plantation of Standard Fruit, has also made use of banana production that normally was wasted. Isletas traded truckloads of fallen bananas with swine producers in exchange for swine. Unmarketable bananas, as in Guanchías, were used as part of their feed.

With respect to marketing, the banana coops were in the most "exploited" position that one could think of, in terms of AID's justifications for coop federation projects. The marketing agent, Standard or United Fruit Company, was the sole supplier of their inputs. The coops were bound to this monopsonistic and monopolistic buyer-seller, moreover, by a ten-year contract.[3] This was seemingly fertile ground for an AID-type federation to take over marketing and input selling for the exploited coops, thereby doing away with the evil intermediary. But the direction of the "exploitation" in the case of the banana coops was not one way. The banana coops, that is, "exploited" the constricted relation with their intermediary. Under the protection of the relationship, they could sit back and gain strength in their early years. They did not have to take on anybody in the buying or selling market. Then they expanded horizontally out from under the control of the intermediary, by going into other activities in which United and Standard had no interest.

The banana coops, in sum, escaped the intermediary's power by expanding horizontally, rather than by invading his territory and attempting to do what he was doing. What they expanded into did not involve the replacement of an intermediary, nor the taking on of a different stage of the production process.

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[3]Astorga Lira (op.cit., pp. 49-54) reprints and summarizes several portions of the ten-year contract (1968-1978) of Standard Fruit Company with the Guanchías coop, which was the most successful of these banana coops and was somewhat of a model for the rest. Among other things, the contract stipulates that the coop must have company approval for anything it does on 500 acres chosen by the company for banana cultivation; the coop gives rights to the company to construct railroad and telephone lines, packing plants and other installations on its (the coop's) property free of charge; the coop concedes the right of free entry by designated company employees to its banana lands, and must facilitate such inspections; the coop cannot, without written permission of the company, increase its banana cultivation or alter it in any way; the coop cannot sell banana seed to third parties without written company authorization.

These cooperatives, in turn, have less need for the kind of services and relationship than an AID-type federation provides. They arranged for these services some time ago in their banana contracts. As they start to grow out of their banana tutelage, they are more capable of arranging for such services on their own.

FECOAGROH Among the Other Institutions

The fate of AID programs can be considerably influenced by the relation of the AID-supported institution to other institutions involved in the same activity. The problems of FECOAGROH were explained in the last section in terms of factors internal to the Federation--i.e., relationships between it and its coops. This section looks at the relationship of the Federation to other important institutions in the agricultural sector. Putting together these external and internal aspects of the program, one finds many variables that were within AID's control.

I seek to re-do AID's explanation of the FECOAGROH failure in order to recover from the project's history some important lessons about inter-institutional relationships and how they affect the outcome of AID-financed programs. As long as it is thought that fortuitous circumstances like weather and war completely undid this project, then it will not be understood that the Agency itself can avoid the same kinds of problems from occurring again. Since the history of this project has much in common with other AID projects, its lessons have general applicability.

FACACH. It will be remembered from the FACACH chapter above that FECOAGROH's credit funds were originally meant for FACACH--the federation of credit unions. FACACH had been slated for $1.5 million in credit funds in the 018 project, which was authorized in June 1968 and signed in April 1969. Because of changes in Mission approach and personnel, and resentments between AID and FACACH, AID amended the loan agreement in January of 1971 so that FECOAGROH would receive most of FACACH's loan funds.[1] FACACH's pique at this change would normally have not made much difference to the fate of FECOAGROH. But FACACH was made the intermediate lender for FECOAGROH's AID credits. Before the FECOAGROH credit even started disbursing, then, FECOAGROH had an extremely unsympathetic creditor as the only source of its loan funds.

Given the history of FACACH's relations with AID and FECOAGROH, told in full in the FACACH chapter, one can imagine a certain feeling of vindication at FACACH headquarters when it attached the assets of FECOAGROH in 1973, upon discovering that 22 of FECOAGROH's 29 coops were hopelessly delinquent. A letter from AID in Washington to the Honduras Mission asked if the stringent lending conditions imposed by FACACH on further borrowing by the solvent coops were "an attempt to take advantage

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[1] See pp. 12-20 of FACACH chapter.

of the situation to undermine or override a rival organization?"[2] FACACH, moreover, might normally have refinanced some of the delinquent credit because of the 1971-1972 drought. It was accustomed to refinancing much of its agricultural credit after bad agricultural years. Given the history with FECOAGROH, however, it was not surprising that FACACH exhibited no refinancing sympathy for the coops.

FACACH actually proposed to AID a program of rescue for the more solvent FECOAGROH coops, an idea to which AID was not unsympathetic initially. But FACACH made the offer contingent upon AID's allocating to FACACH all of FECOAGROH's $744,000 in unspent AID/018 credits for grain storage. FACACH said "it must receive precisely this amount...or their proposed recovery plan cannot be carried out."[3] This was the $744,000 that was originally designated for FACACH for construction of small grain storage facilities in outlying areas, and was later transferred to FECOAGROH.

In the meantime, the government and the BNF had developed their own idea about how the $744,000 should be used--i.e., for capitalizing a "cooperative window" in the BNF.[4]

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[2] AID/LA/MRSD/SCD, Letter to AID/H, 21 August 1973.

[3] AID/H, Letter of Mission Director to LA/DR, 19 July 1973, pp. 2-3.

[4] This development is discussed in more detail in the next section.

Ultimately, then, the government and AID did not approve of the proposed FACACH rescue operation, which did not take place. Though the FACACH operation would have helped save the FECOAGROH coops, it should be noted, it would have abandoned the Federation. This was perhaps one of the reasons that the proposal was not pursued with greater interest by AID.

The significance of this history is that the fledgling FECOAGROH was placed by AID in an institutional environment in which its only creditor was likely to have no more sympathy than the most evil of private intermediaries. The 1971 amendment to the loan agreement, whatever its merits, took credit away from FACACH in favor of another institution, and then gave FACACH the power to get back in its role as creditor. This history made FECOAGROH particularly vulnerable to problems in its institutional environment. If the chips were to fall--as they did--FECOAGROH could not hope for any sympathy from FACACH.

Using FACACH as a conduit for FECOAGROH's funds not only put FECOAGROH in the hands of an unsympathetic institution. It also meant that FECOAGROH would have to give up half its interest income to the conduit institution. Without FACACH as intermediary, that is, FECOAGROH could have netted at least 6% on the 9% interest it charged to coops, instead of the 3% that emerged out of the negotiations with FACACH. This was income that would have been important in helping the Federation gain self sufficiency, a major goal of the AID program. Interest income could also have been a more immediate and less complex way of earning money at the start, in contrast to grain marketing.

When the 1971 loan amendment was being devised, some in AID had wanted FECOAGROH to borrow the 018 funds directly from the government, instead of channeling them for a price through FACACH. The government, however, was not interested in FECOAGROH and FACACH was not willing to give up complete control of the funds. AID, then, may not have had much choice in the matter of how to channel its loan funds to FECOAGROH. But after it was seen that funds could not be provided directly to FECOAGROH, the project and the self-sufficiency timetable could have been altered so as to make up for the lost interest income; or the project might have been postponed until FECOAGROH was strong enough to borrow directly from AID on its own; or the project might not have been financed at all.

As explained above, FECOAGROH decided by early 1973 that it wanted to give up the credit-supply function completely, and concentrate on grain marketing and input supply sales. FACACH, it was said, could "with its greater experience be more effective in promoting sound credit policies."[5] It was even

[5] AID/H, "Cooperative Development" PROP, 9 March 1973, p. 5.

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hoped that FACACH, in return for getting FECOAGROH's credit clients, would be interested in sending its credit-union and coop borrowers to FECOAGROH for grain marketing and bulk input purchases. The affiliated coops of each of the two federations, according to the hopes of FECOAGROH and ACDI, would join the other federation in order to qualify for its specialized services. This proposal seemed to be oblivious to the problematic relationship between FACACH and FECOAGROH.

When it was proposed that FACACH take over FECOAGROH's credit function in early 1973, FACACH had not yet made its own investigation of the delinquent FECOAGROH coops. But delinquency had been noted by the contractor as a problem since the end of 1971, when 25% of the credit due was delinquent. By the end of April of 1972, moreover, the contractor reported that delinquency had reached 40%. In early 1973, a few months before the FACACH investigation, the Mission reported delinquency at 50%.[6] As early as mid-1972, moreover, the contractor had expressed interest in helping FECOAGROH get rid of the credit function. Since the contractor was also working with the BNF under another AID technical assistance contract, and since relations between

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[6] 1971 figure from ACDI, "Report on Consultative Trip to Honduras," 28 May-4 June, 1972, p. 1; 1972 figure from ACDI/Honduras, "Memo to ACDI/Washington re Annual Report," HON 72-620, 13 June 1972, p. 5; 1973 figure from AID/H, "Cooperative Development" PROP, 9 March 1973, p. 5.

FECOAGROH and FACACH had never been good, it was natural that ACDI would have originally proposed the BNF as the place to which FECOAGROH's credit function could be transferred. "Conferences between BNF and FECOAGROH," the contractor suggested, "should investigate the extent to which BNF could take over the loan function to members of FECOAGROH-associated cooperatives, thus allowing these cooperatives to focus on supply, marketing and extension activities."[7]

ACDI's and FECOAGROH's interest in 1973 in handing over the credit function to FACACH, in sum, involved not only a recognition that credit management was more difficult than was first thought. It also looked like it arose from the desire to get rid of a hot potato. It is not surprising that FACACH, and earlier, the BNF, did not jump at this chance to take over FECOAGROH's credit business--and that FACACH was not particularly interested in pursuing a trading of clients with FECOAGROH.

The irony of the AID/ACDI proposal to have FECOAGROH give up its credit function to FACACH is that the latter was rejected by AID for this role only three years earlier.[8] Whereas AID was now proposing to give the credit to FACACH because of its

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[7]ACDI, "Report on Consultative Trip to Honduras," 28 May-4 June 1972, p. 2.

[8]See pp. 12-20 of FACACH chapter.

greater experience, it had originally taken the credit away from FACACH because of its <u>lack</u> of experience. In the first instance, AID had been concerned over experience with a supervised program in agriculture. In the second instance, it was talking about experience with the credit task itself.

All this means that AID had assumed in the beginning that lack of experience with agricultural programs was the limiting factor in determining the ability of an organization to handle such a program. Its proposal to give the credit function back to FACACH, in turn, was an admission that lack of experience with <u>credit</u> was the limiting factor. Put differently, AID was admitting that it was more important that FACACH had had experience with credit than that it did <u>not</u> have experience with agricultural programs. There was a learning process in the FECOAGROH-FACACH history, in sum, that was never made explicit. In designing future programs, this particular lesson should be taken into account.

<u>The Honduran government and the BNF</u>. FACACH was not the only potential source of salvation for FECOAGROH's coops. AID and FECOAGROH also appealed to the government and the BNF. But the history of the program had left the government as a somewhat uninterested observer. The FECOAGROH funds, after all, were

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the ex-FACACH funds which, in turn, had originally been intended for the BNF.[9] That was back in 1967 and 1968, when the 018 loan was being discussed as totally for BNF capitalization purposes. By insisting on giving a part of those monies to FACACH, AID had made it clear to the government that it did not feel comfortable putting all its small farmer credit in the BNF.

AID's allocation of $744,000 to FACACH and then FECOAGROH for grain storage facilities had also amounted to a partial bypassing of the BNF--though the Bank received $3 million of the 018 loan for construction of two central grain storage facilities. The Bank had been in the grain marketing and storage business for many years, and had a network of small storage facilities throughout the countryside, many of which were run down and not usable. Some in the AID Mission had felt in 1968 that it would make more sense to rehabilitate these BNF facilities for BNF operation, instead of having yet another institution construct and manage a separate system of new ones. They thought this preferable to bringing in an institution with no experience in this field (first FACACH, then FECOAGROH). Others in the AID Mission wanted to keep part of the grain storage program away from the "bureaucracy" and "government interventionism" that they felt was involved in management of

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[9]Pp. 10-12 of FACACH chapter.

the program by a large established development bank. Their view prevailed, and the $744,000 for local facilities was designated for FACACH (and later, FECOAGROH). For various reasons, neither FACACH nor FECOAGROH started in on the construction of these storage facilities, and the funds remained undisbursed at the time of FECOAGROH's demise in 1973.

To the government and the BNF, then, FECOAGROH represented an institution that AID had created to handle funds which were originally meant for them. In general, FECOAGROH had been looked at by the government as an AID/ACDI undertaking, that did not have much to do with them. The government had never committed any financial support to the program, despite AID's urgings.[10] Partially as a result of the higher salaries paid to FECOAGROH employees, the Federation was characterized by many in the public sector as "that gringo organization."[11] For all these reasons, it is not surprising that, "during the mid-1973

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[10] In early 1973, the Mission reported that "the GOH has made the basic policy decision that, given sufficient lead time, it will support the FECOAGROH budget which is a major departure from its past stance." (AID/H, "Cooperative Development" PROP, 9 March 1973, p. 6.) This commitment took the form of the taking in of FECOAGROH under the wing of the Coop Department, as discussed above, and the commitment to increase the Department's budget under the sector loan program. It did not meet the immediate problem of the FACACH receivership or of the individual coops' credit needs.

[11] The salary question is taken up in the following section.

FECOAGROH rescue activities, neither the BNF nor the Ministry of Natural Resources offered assistance to that Federation."[12]

Though the government was in the beginning not averse to FACACH's rescue proposal for FECOAGROH, involving the undisbursed $744,000, it ultimately decided against the idea. The BNF had convinced it that the $744,000 would be best used to open a "cooperative window," a proposal that AID had been pursuing with the Bank for some time. The Bank had previously showed a lack of interest in lending to the kinds of cooperatives that interested AID--i.e., small farmers and basic grains.[13] When FECOAGROH fell apart, however, it must have been apparent that a cooperative window would be a good way to get the unobligated FECOAGROH funds. The BNF and the government, in sum, had their own ideas about how to deal with the FECOAGROH monies. They involved the strengthening of the BNF, and not of FECOAGROH or FACACH. In the end, the unexpended $744,000 was used to capitalize the Coop Window in the BNF, and the government agreed to give some nominal support to the concept of FECOAGROH.

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[12] AID/H, "Request for Amended Authorization of Loan No. 522-L-018," [Fall 1973], p. 10. The reason for this position by the BNF and MRN, the Mission said, "appeared to be that the BNF did not want to become actively involved since FECOAGROH had a credit line with FACACH, and the Ministry of Natural Resources, while it could provide some technical assistance, could not provide any funding." P. 10.

[13] See pp. 2-3 of BNF chapter.

Paying Higher Salaries

FECOAGROH was criticized by some for the high salaries paid to its management and extensionists. It paid $450 a month to its coop extensionists at a time when the Cooperative Department of the government was paying less than half the salary--$200. Such salary differentials are not an infrequent feature of AID's institution-building programs. They are meant to attract competent people who will work hard. It is also hoped that the higher salaries will make unnecessary the moonlighting that is common among professionals of service institutions in developing countries. This was the case with the PPEA program in Ecuador, where AID "topped off" the government salaries of the agronomists and engineers working with the program.[1] As in Honduras, the high salaries caused resentment by other professionals and institutions working in the same field. In Ecuador, the topping-off had to be discontinued, partially because of the resulting institutional jealousies and their adverse impact on the acceptance of the AID program by the government institutions involved.

The problems that high salaries are supposed to solve are very real ones for the administration of AID-supported

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[1]See p. 98 of Ecuador volume.

institutions. But the costs of resolving such problems in this particular way should be understood. The high-salary approach conveys a certain disdain toward the country in which AID is working. It says, in effect, that we have the money to avoid your poor-country salaries, your mediocre bureaucracies, your moonlighters. We aren't limited by one of the major constraints within which you have to work.

The high salaries also put AID in a somewhat exploitative position with respect to the public sector of the country it is assisting. The low government salaries, that is, guarantee that a high salary will work--i.e., will draw off the cream of the public sector for the AID project. The low salaries are essential to helping AID get the best people. Finally, it is easier for AID to pay high salaries on any particular project than for a government to deal with its low-salary problem. The importance of these salaries in total AID expenditures is much less than the importance of salaries in the total expenditures of a recipient government and in the policy problems of that government.

The high-salary approach thus turns to AID's benefit a major problem in the administration of the public sector in developing countries. It leaves the rest of the public sector poorer off as a result. In a sense, the high-salaried projects put AID in the same position as a private firm: it externalizes the costs of its actions as much as possible, and internalizes the benefits. Since it is the public sector that must pay the costs externalized by AID in this case, the benefits are gained at a cost that should not be excluded from consideration by an agency that is concerned with a country's public-sector development.

When AID leaves an institution, that institution must incorporate itself completely into its local setting. The past high-salary policy creates obstacles to that incorporation, and may undo the institution. Resentment by other important institutions makes them less sympathetic to the fate of the AID-created institution, when it is left on its own. FECOAGROH, for example, was often referred to by those in other institutions in agriculture as "that gringo organization." This resentment may be part of the reason why the various institutions that could have helped the Federation did not. One may get away from public-sector problems by paying higher salaries, then, but one also runs the risk of losing one's place in the institutional environment.

Alternative ways of securing good personnel for AID projects should be sought. One way to deal with the problem is to work more through existing institutions, instead of creating high-salaried enclaves--an approach that has been argued for on other grounds in the Ecuador report. Another way might be to provide technical assistance to the government on how to deal with its problem of low-paid professionals across the board. A possible mechanism could be non-monetary incentives--not in the sense of perquisites that would create the same kinds of differences and jealousies as salary differentials--but in terms of the quality of the work environment.

AID and the Contractor

In reading through the extensive files on this project, I was impressed with the similarity of the evaluative reports of AID, the auditors and the contractor, ACDI. AID's and the auditor's explanations of the Federation's problems and ultimate collapse did not differ from those of the contractor. As noted above, the failure of the program was attributed to (1) the 1971-1972 drought; (2) the Honduras-El Salvador War of 1969, which closed trade between the two countries, including Honduran corn exports, on which the Federation had been counting for income; (3) of similar impact, the BNF decision in 1971 to monopolize grain exporting. To these unforeseeable events were added three more explanations related to the design and implementation of the program: (1) the restrictions on credit use to basic grains and a limited variety of inputs; (2) the unanticipatedly high cost of technical assistance supplied by FECOAGROH to the coops, and the fact that this activity did not generate revenue; and (3) the FACACH credit freeze and attachment of the Federation's assets. The latter was more an outcome of the program's problems than their cause.

There was also a sameness between what the contractor proposed to solve the Federation's problems and what the Mission proposed. Both suggested the major revamping of the program discussed above, whereby the Federation would give up the credit function to FACACH; retreat somewhat from marketing, focusing on beans and rice instead of corn; place major emphasis on input supply stores; and consolidate the coops into 15 regional associations.

Only after FACACH's action in the summer of 1973--freezing credit to the coops and attaching the Federation's assets--did AID's proposal differ from that of the contractor. The contractor wanted the project continued, whereas AID saw FACACH's action as precluding anything but AID termination. Though the contractor and AID favored a different course of action in the end, however, their explanation of the failure remained the same. There was no evaluative statement about the contractor's work, moreover, or criticism of the way it had handled problems. The explanation of the failure pictured AID, FECOAGROH and ACDI as the helpless victims of outside forces.

The sameness of AID's and the contractor's evaluation of the FECOAGROH problem would not be worthy of comment if the explanation were an accurate one. As I have tried to demonstrate in this chapter, however, the explanation was incomplete and focused on variables that were mainly outside everyone's control. It was silent about the factors that were within reach. The adverse events cited as a cause of the problems, moreover, occurred after some of the problems started to appear--as I have also tried to show above. Or, at the least, AID and even the contractor did not start to point to some of these events as problematic until a considerable time after they occurred.

In a field survey made by the contractor's Washington office, for example, conducted in the midst of the second successive year of drought, no mention was made of the drought--though the War and the BNF monopoly were cited as causing marketing problems. The tone of the report was optimistic, in fact, citing a 50% increase in business in 1971 and predicting another gain for 1972.[1] Mention was made of a 25% delinquency rate on credit. Similarly, another contractor report, dated only days later, was also optimistic and made no mention of the drought--even though it referred to "severe problems" in coop credit administration and a 40% delinquency rate.[2] It was only a year later, at the time when FACACH declared the 22 coops ineligible for further borrowing and seized the assets of FECOAGROH, that the contractor first referred to the drought.[3]

Similarly, the AID files showed a considerable lag before the drought was brought up as a reason for the credit

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[1] ACDI,"Report on Consultative Trip to Honduras," 28 May-4 June 1972, p. 1.

[2] I do not know why delinquency was reported as 25% on the one occasion and as 40% a few days later. ACDI/Honduras, "Memo re Annual Report," 13 June 1

[3] ACDI, "Informe Final," 30 June 1973.

delinquency of FECOAGROH's coops. The proposal for renewed financing for FECOAGROH, presented to Washington by the Mission in early 1973, referred only in passing to the drought and credit delinquency, though it noted all the other problems outlined above. Delinquency was noted as being 50%, which was "in part...due to the poor climatic conditions of the past two years...." The proposal went on to suggest that FACACH, "with its greater experience," take over the coops' credit because "the member cooperatives need special attention in this area."[4]

The first reference to the drought by AID as a major problem appeared in July 1973, in a letter from the Mission to the Minister of Finance.[5] The impact of the drought, however, was noted by at least one person at the Mission a year earlier. It was graphically referred to in the memo of an AID officer who visited two FECOAGROH coops, with the purpose of assisting the extensionist in presenting the idea of a "work plan" to the coop membership. "One problem that has hit the community and may account for the unwillingness to organize," he wrote, "is the drought which has ruined from fifty to ninety percent of their corn production."[6]

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[4]AID/H, "Cooperative Development" PROP, 3 March 1973, p. 5.

[5]AID/H, Letter of Mission Director to Minister of Finance and Public Credit, 11 July 1973, p. 1.

[6]AID/H, "Memo re Visits to Cooperatives," 24 August 1972, p. 2.

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If it is true that the drought, the war and the BNF monopoly had such a negative impact on the FECOAGROH program, then the delayed recognition of these events as problem-causers seems to reflect a lack of informativeness on the part of the contractor, and a lack of involvement in the problems of the project on the part of AID. I return to this question below.

Problems of monitoring information. Some of the problems that were not picked up by AID or the auditors were straightforward matters, easy to ascertain from the data presented by the contractor or FECOAGROH to AID. An example is the fact that 70% of the capital of FECOAGROH coops was accounted for by three coops established before the FECOAGROH program, and which were outside the spirit of the program--CASMUL, Santa Rosa and La Subirana (Table 2). The preponderant role of these three atypical coops in the aggregate data on this project's progress was discussed above (pp. 20-22).

In citing a 20% increase in equity capital of all the FECOAGROH coops to L.346,000 from 1970 to 1971, the contractor noted that the inclusion of "two larger societies [CASMUL and Santa Rosa] not organized by the project" was "misleading." Nevertheless, it said, "the increase for the year, however, is an accurate measure of growth."[7] Yet the two groups--and to

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[7]ACDI,"Report on Consultative Trip to Honduras," 23 May-4 June 1972, p. 1. Emphasis mine.

a lesser extent La Subirana--accounted for 71% of the capital increase! Since these groups also accounted for 70% of the capital, this meant that the increase in capital for the rest of the groups was the same on a percentage basis as for all the coops together --i.e., 75% (Table 5).[8] But in absolute terms, the increase in capital for all the coops, excluding the three groups, was less than one-third the value--L.65,521 vs. L.216,264 (Table 5).

Table 5 shows the considerable discrepancies in program indicators including and excluding the three large coops in the total. The table is set up in the same form as the performance indicators cited by the contractor in a memo for its annual report.[9] The table not only shows significant differences in values with and without the three coops. But it also shows major inconsistencies between the contractor's reports and the more detailed submissions of the Federation. Since the Federation was receiving 100% budget support from AID under a technical assistance contract with ACDI, the submissions of the Federation were at least reviewed, if not prepared, by the contractor.

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[8] This reported 20% increase in equity capital conflicts with the 75% increase given by the more detailed capital figures submitted in FECOAGROH's quarterly reports and shown in Table 5. This inconsistency is commented on further below in the text.

[9] ACDI/Honduras, "Memo re Annual Report," 13 June [illegible], pp. 3-4.

With respect to the three dominant coops, the comparison shows that without these coops, the aggregate figures are (1) only 30% as great for capital in 1970 and 1971; (2) only 42% as great for input sales in 1970 and 64% as great for 1971; (3) for credit, only 47% as great for 1970 and 94% for 1971; (4) and for output sales, only 33% in 1970 and 97% for 1971.

The contractor report cited above is reproduced as part of Table 5. It shows various measures of progress for the "average" coop--credit per coop, supply sales per coop, marketing sales per coop, etc. --though it does not give the aggregate figures from which the average was calculated. When I multiplied these averages by the number of coops listed in FECOAGROH's quarterly reports, give or take a few, it was not possible to get totals that were within a reasonable range of the detailed data presentations of FECOAGROH, also depicted in Table 5. The increase in capital for the "average" coop between 1970 and 1971, moreover, is shown as 146%. This not only conflicts with the 75% average increase given by the FECOAGROH presentations (Table 5). More seriously, it conflicts with the 20% aggregate increase in capital reported by the contractor itself in the report cited above,[10] which was

[10] ACDI, "Report on Consultative Trip to Honduras," 28 May-4 June 1972, p. 1.

issued at the same time. (There is no way that a 20% aggregate increase can give a 146% average increase.)

Finally, Table 5 compares the contractor's performance indicators for the "average coop" with averages calculated by me from the more detailed FECOAGROH reports. The most notable discrepancies are in paid-in capital and output sales. The contractor shows capital per coop increasing at 146%, as mentioned above, while the FECOAGROH data gives 75%. More striking, the contractor shows marketing sales per member increasing at 313%, and the FECOAGROH data shows a decrease of 86% (or, excluding the three big coops, 60%). Table 5 reveals other such discrepancies.

The above examples are a few of many showing that much of the information supplied by the contractor for this project was incomplete, inconsistent or inaccurate.[11] The reports by the contractor of a 25% and a 40% delinquency rate for the same period cited on p. 92 above, are another example. Another instance is found in the only table of performance indicators for the program in the contractor's final report to AID. The

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[11]There were also simple arithmetic mistakes in the contractor's presentation. For example, in the contractor's table showing percentage improvements for the "average coop," both percentage and absolute average values were shown. One set of values was said to be an 18% increase when it was actually 78%--perhaps a typographical error (footnote f to Table 5).

monetary values were indicated to be dollars when they were actually lempiras, which are half the dollar value.[12] Further examples of the contractor's reporting on the program follow.

In addition to these data problems, data was supplied by the contractor only for coop members' acreage planted in grains--as pointed out in the section on basic grains. Yet the presentation tables referred to "area" in manzanas for each coop, giving the impression that the data included total landholdings of the coop or, at least, total cultivated area. It was not made clear, moreover, whether the acreage figures referred to only that acreage financed with credit. Since many of the coops had important non-grain production--cash crops and livestock--there was no way of knowing their total cultivated acreage, let alone their landholding size. The La Subirana coop, for example, had 3 manzanas or 5 acres per member in "area"--within the definition of a small farmer in Honduras (Table 2). But adding the non-grain acreage of that coop in plantains and pasture, utilized acreage per member was 17 manzanas or 29 acres--outside the small farmer category (pp. 16-20 above). There was no way of knowing how important these non-grain activities were in a coop's total marketed production. Yet this was an important piece of information for program monitoring, since the

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[12] ACDI, "Informe Final," 30 June 1973, p. 15.

Federation was set up to live off the marketing of grain.

In addition to the incomplete data on acreage, there were no data on the credit delinquency of members to the coops. Yet this information would be an important bellweather of how well the coops would be able to repay the Federation, and how the coops themselves were doing. As an example of the latter, it was noted above that some coops were covering for the delinquency of their members, and avoiding ineligibility for further credit from the Federation, by paying their delinquent members' credit out of their own capital. If this was the case, then the delinquency of the individual members was having a substantial impact on the fate of the coops and the Federation. Another example of incomplete data was the fact that annual credit breakdowns by coop were given only for credit that the coops obtained independently of FECOAGROH. Yet it was the credit channeled through FECOAGROH that was of relevance to AID and the contractor.

Only a year after the Federation was formed, an ATAC evaluation reported similar frustrations in obtaining basic working data on the program, and suggested the "need for improvement on the kinds and amounts of information available."[13] At the end of 1970, for example, data on FECOAGROH coops was

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[13] ATAC,"Field Trip Background on Honduras,"June 1971. This and other citations in this and the next paragraph are from pp. 73-78.

available for acreages cultivated but not for crops planted and harvested or for total amount marketed by individual coop members --as opposed to that marketed by the coops. There was no way of ascertaining, in short, the extent to which members were actually marketing through their coops and FECOAGROH. Coop records, ATAC went on to say, did not show how much land a member owns or farms, what crops he plants, or any other data that "would indicate his progress as a farmer or a cooperative member."

Even though the FECOAGROH program involved AID-financed construction of grain storage facilities, ATAC said, there was no information available on grains stored on the farm. Yet most farmers belonging to these coops, the evaluation said, stored grains on the farm. Finally, the amount of delinquency by coop members to coops could not be ascertained by ATAC. (Despite this early report of ATAC, ACDI and FECOAGROH never did report the latter measure of delinquency, restricting themselves to reporting the delinquency of coops to the Federation. There was, in short, "a lack of sufficient data for the federation to frame a program or to measure its progress."

The need for critical distance. The fact that the contractor was not required to submit more informative data, and that its analyses of problems were accepted almost completely by AID, illustrates a lack of distance that is not uncommon between AID and its coop contractors. This is a difficult problem to resolve. The contractors, after all, are hired to do tasks that the Agency does not have the staff to do. By definition, there is no time for AID to independently verify all the contractor's judgments. The contractor is supposed to represent the choice of the recipient government, moreover, as approved by AID. Officially, AID does not want to impose itself on the execution of such a project, even if it had the staff time to do so. As these project histories show, however, the choice of the contractor, not to mention the project itself, has more to do with the contractor's relationship to AID than to the recipient country's institutions. AID is under pressure from the U.S. legislature, moreover, to spend technical assistance monies on projects that employ the U.S. coop contractors.

Contributing to the closeness between an AID mission and the contractor is the fact that the third party to the project--the recipient institution--is of a different nationality. AID and the contractor, that is, have an affinity that comes into play only because the third party is another nationality. The two talk the same language, they socialize with each other more. The equal status of the two as foreigners abroad, in an environment which they sometimes find exasperating and inscrutable, makes it easier for them to be close than either one with the third party.

There is often considerable movement of American technicians back and forth between positions in AID and positions with the contractors--as was the case with CUNA in Honduras and CLUSA in Ecuador. This contributes to the feeling of "family" between AID and contractor personnel. Thus the coop contractors are sometimes treated with the trust and familiarity of an office of AID itself, once a project has begun. This closeness between AID and the contractor would not be so inevitable if the Agency were doing projects in its own country. In that situation, at least, the recipient institution has the same cultural affinity with the financing agency as does the contractor.

Though the delegation of responsibility by AID to the contractor makes for the efficient execution of the task, the fact that the contractor ends up being treated like part of the Agency does not. A coop contractor is like any private firm in that it needs to make money and get more contracts. These needs, of course, are not at all inconsistent with a high quality of work. But they will not always be consistent with AID's goals for its projects. There is no way that AID can delegate to the contractor the responsibility of keeping watch over possible inconsistencies in these areas--e.g., distorted evaluations of what is happening in the field. As long as one sees the contractor as somewhat of an extension of one's own organization--and as long as the circulation of personnel back and forth between the two types of organization occurs--it will be difficult for AID to do the necessary monitoring of its coop projects.

AID project documents often freely express apprehension about the recipient-country institution or environment. One rarely sees this kind of uneasiness expressed in relation to the contractor. Certain features of project design, that is, are commonly justified in terms of how they will protect against certain malevolent features of the recipient-country institutional environment--political meddling, bureaucratic interventionism, diversion of funds to other uses. This mistrust is based on the assumption that there will be actors in the project environment who will have motives that are unrelated to those of the project. The case of the contractor, however, is directly analogous. What is needed with respect to the contractor, then, is a similar degree of mistrust built into the project design.

In the two countries evaluated for this study, the only case of a comprehensive and critical <u>field</u> evaluation of a contractor's work involved CREA in Ecuador.[14] In that case,

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[14]Pp. 140-141 of Ecuador volume.

interestingly, there was considerable dislike at the Mission for the contractor. And this was one of the few cases of technical assistance for coops where a U.S. coop contractor was not used. The Mission's dislike for this contractor, regardless of its substantive merit, created a healthy distance between AID and the contractor. Since this kind of distance will normally be harder to achieve than that between AID and the recipient institution, it will somehow have to be built into project design. One thing is for sure: it will not work by admonition, nor will it automatically take place by setting up an independent evaluation system. As seen in the case of the FECOAGROH and BNF audits, independent evaluation did not get to some basic and easily verifiable problems. Independent evaluation can end up by simply bringing in more groups who see reality though the eyes of the contractor, because of their even greater unfamiliarity with the situation than the AID Mission.

Table 1

FECOAGROH: Affiliated Coops by Type of Production, 1971 (Master Table)[a]
(lempiras)

Coops by type of activity	No. of members	Acreage in grains (manzanas)[b]	Credit (outside FECOAGROH)[c]	Input sales (outside FECOAGROH)[d]	Output sales (outside FECOAGROH)[e]	Working capital
Basic grains only						
San Francisco	18	66	361	369	0	119
Sonaguera	115	322	3,680	6,094	0	1,014
San Ildefonso	75	210	8,035	11,620	463	2,274
Cuyamel	113	250	11,068	25,731	10,000	2,460
San Antonio	100	100	13,763	1,994	0	9,044
Jacaleapa	144	923	22,825	43,758	44,453	4,673
Chichicaste	156	558	51,154	23,059	13,546	8,924
El Esfuerzo	28	200	6,805	3,875	0	2,134
Subtotal	749	2,629	117,691	116,500	68,462	30,642
Olancho (basic grains)[f]						
Catacamas	388	4,700	41,500	89,200	50,338	27,189
Juticalpa	272	2,900	27,300	66,300	0	14,998
Lepaguare	61	1,100	0	0	7,000	12,025
El Porvenir	47	600	5,562	840	3,050	980
Subtotal	768	9,300	74,362	156,340	60,388	55,192
Cattle and basic grains						
Río Lindo	56	156	2,667	21,837	2,964	3,655
San Francisco de Yojoa	86	166	20,675	23,864	2,955	5,149
Santa Cruz	130	228	25,769	15,658	11,894	2,924
Las Vegas	207	600	6,400	2,873	0	1,495
Santa Lucía	368	1,300	40,966	40,385	41,698	6,245
Subtotal	847	2,450	96,477	104,617	59,511	19,468

Table 1 (continued)

Coops by type of activity	No. of members	Acreage in grains (manzanas)[b]	Credit (outside FECOAGROH)[c]	Input sales (outside FECOAGROH)[d]	Output sales (outside FECOAGROH)[e]	Working capital
Cash crops and basic grains						
El Progresso (banana)	84	n.a.	10,475	16,208	0	2,730
San Andrés (onion)	122	150	10,521	12,840	0	1,498
El Porvenir (coffee, tobacco, cattle)	441	2,100	58,266	115,398	5,554	19,718
Pinares (coffee)	104	175	3,459	13,959	160	1,058
CASFUL (coffee)	77	290	6,663	9,748	4,959	5,866
Cristo Rey (tobacco)	84	400	13,753	23,041	6,258	2,177
Los Angeles (horticulture)	237	792	35,820	45,605	0	10,455
Villa San Antonio (horticulture)	111	354	9,981	13,805	0	2,312
Subtotal	1,260	4,261	148,938	250,604	16,931	45,814
Total coops	3,624	18,640	437,468	628,061	205,292	151,116
FECOAGROH[g]	-	-	420,764	296,650	70,387	-
GRAND TOTAL	3,624	18,640	858,232	924,711	275,679	151,116

[a]Data are for year-end 1971. The data for 1970, 1972 and 1973 are significantly less complete. Data excludes the coops La Subirana, CASMUL and Santa Rosa, because they are large, account for 70% of the capital of the affiliated coops, and are atypical in many ways, as explained in the text (pp. 20-22). Table 2 shows their role.

[b]1 manzana = 1.7 acres or 0.7 hectares. Though data source indicates only "acreage," it is apparent from field visits that these figures refer only to acreage planted in grains. It is not clear, however, whether the data covers only grain acreage financed with credit or all acreage planted in grains.

Table 1 (continued)

[c]Represents credit that coops obtained directly rather than through the Federation--mainly from commercial suppliers, and also from FACACH and the BNF. Data on AID/018 credit channeled through FECOAGROH to the coops are available by coop only for the total 1970-1973 period, and not on an annual basis. See Table 3.

[d]Data on input sales by FECOAGROH by coop are not available. As in the case of credit, these data are sales made by the coop to its members, with supplies purchased elsewhere than from FECOAGROH. The last line of the table shows total input sales to the coops by FECOAGROH.

[e]Represents sales by coops of member production to third parties, as distinct from sales to FECOAGROH; does not include individual sales of members.

[f]These coops are classified separately because of their average acreage size, which is three times greater than that of the others (Table 2). They were also said to include many large farmers and non-farmers by those who conducted the FACACH field survey in 1973. I doubt that they were only grain producers, because of their large acreages and their locations in a livestock-producing area of the country.

[g]These figures are <u>in addition to</u> the totals above them.

Source: Based on data from FECOAGROH, "Informe Trimestral de FECOAGROH," Year-end 1971, Appendix IV of AID/H, FECOAGROH Development Program, CY1971-1972, 2 February 1972. Crop information from same source and from ATAC, "Field Trip Background Report on Honduras," June 1971, p. 76.

Table 2

FECOAGROH: Selected Indicators of Coop Activity by Type of Coop, 1971[a]
(lempiras)

Coops	Coops		Members		Acreage in grains			Capital		Credit: AID/018 (FECOAGROH)[d]		Credit: Outside FECOAGROH		Input sales (outside FECOAGROH)		Output sales	
Pre-established coops[b]	No.	% of total	No.	% of total	No. of manz.[c]	% of total	Acreage/member (manz.)	Lempiras	% of total	Lempiras	% of total	Lempiras	% of total	Lempiras	% of total	Lempiras	% of total
La Subirana (corn, plaintains, coffee, livestock)	1	3.6	89	2.2	261	1.3	2.9	78,285	15.5	4,818	0.9	3,791	0.8	0	0	5,088	2.4
Santa Rosa (poultry feed-mix concentrate)	1	3.6	167	4.2	1,892	9.1	11.3	57,452	11.4	0	0	23,152	5.0	349,848	35.8	0	0
CACMUL (bananas, sugar cane)	1	3.6	78	2.0	0[e]	-	-	218,676	43.2	0	0	0	0	0	0	0	0
Subtotal	3	10.7	334	8.4	2,153	10.4	8.4	354,413	70.1	4,818	0.9	26,943	5.8[i]	349,848	35.8	5,088	2.4
Others																	
Basic grains only	8	28.6	749	18.9	2,629	12.6	3.5	30,642	6.1	140,455	24.9	117,691	25.3	116,500	11.9	68,462	32.5
Olancho	4	14.3	768	19.4	9,300	44.7	12.1	55,192	10.9	112,839	20.0	74,362	16.0	156,340	16.0	60,388	28.7
Cattle and basic grains	5	17.9	847	21.4	2,450	11.8	2.9	19,468	3.9	158,125	28.1	96,477	20.8	104,617	10.7	59,511	28.3
Cash crops and basic grains	8	28.6	1,260	31.8	4,258	20.8	3.6[f]	45,814	9.1	147,388	26.2	148,938	32.1	250,604	25.6	16,931	8.0
Subtotal	25	89.3	3,624	91.6	18,637	89.6	5.3	151,116	30.0	558,807	99.1	437,468	94.2	628,061	64.2	205,292	97.6
TOTAL	28	100.0	3,958	100.0	20,790	100.0	5.5[g]	505,529	100.0	563,625[h]	100.0	464,411	100.0	977,909	100.0	210,380	100.0

Table 2 (continued)

One U.S. Dollar = Two Honduran Lempiras

[a]Data are from Table 1, except for data on pre-established coops, which is also from source cited for Table 1.

[b]These coops are discussed on pp. 20-22.

[c]1 manzana = 1.7 acres or 0.7 hectares. Data source does not refer to grain acreage specifically, but independent verification shows that the acreage figures do not include non-grain acreage.

[d]Data is for the three-year 1970-1972 period, not just 1971. Annual breakdown of AID/018 credit supplied to coops through FECOAGROH was not available. Source: Table 5.

[e]All acreage was in bananas and sugar cane (600 manzanas or 1,020 acres).

[f]There was no acreage data for one of the eight coops in this group (El Progresso, with 84 members); total acreage was thus divided by 1,176 members instead of 1,260 to get a per-member figure.

[g]Total acreage divided by 3,796 members, rather than 3,958, because of exclusion of El Progresso and CASMUL.

[h]To be consistent with the rest of the data, the table excludes the coops San Francisco Atlántida, Pueblo Nuevo, Lamaní, Atenas de León, Esperanza de Arizona and Reina de Jutiapa. Most of these coops were organized toward the end of the period and data on them is sketchy. Credit to these groups amounted to L.24,929--or 4% of the total. Total FECOAGROH/018 credit including these coops is L.588,556 (see Table 5).

[i]In 1970, these three coops accounted for 53% of total credit; in 1972, after CASMUL and La Subirana had dropped out, Santa Rosa accounted for 26% of this category. The 1971 data on which this table is based shows no outside credit for CASMUL, which is unlikely.

Table 3

FECOAGROH: Credit to Affiliated Cooperatives by Source, 1970-1972[a]

Coops by type of activity	AID/018 credit (through FECOAGROH)		Outside credit (commercial suppliers, FACACH, BNF)[b]	
	Lempiras	% of total	Lempiras	% of total
Basic grains only				
San Francisco	2,259	0.4	5,014	0.5
Sonaguera	3,395	0.6	5,051	0.5
San Ildefonso	11,561	2.1	11,399	1.1
Cuyamel	10,627	1.9	27,462	2.7
San Antonio	14,059	2.5	14,946	1.5
Jacaleapa	22,955	4.1	25,621	2.5
Chichicaste	64,641	11.6	85,801	8.5
El Esfuerzo	10,958	2.0	11,215	1.1
Subtotal	140,455	25.1	186,509	18.4
Olancho (basic grains)				
Catacamas	54,847	9.8	128,823	12.7
Juticalpa	43,756	7.8	83,447	8.2
Lepaguare	5,809	1.0	48,008	4.7
El Porvenir	8,427	1.5	9,465	0.9
Subtotal	112,839	20.2	269,743	26.6
Cattle and basic grains				
Río Lindo	4,274	0.8	12,972	1.3
San Francisco de Yojoa	25,511	4.6	41,520	4.1
Santa Cruz	23,888	4.3	34,357	3.4
Las Vegas	11,600	2.1	7,023	0.7
Santa Lucía	92,852	16.6	144,788	14.3
Subtotal	158,125	28.3	240,660	23.7
Cash crops & basic grains				
El Progresso (banana)	11,044	2.0	15,939	1.6
San Andrés (onion)	11,418	2.1	10,521	1.0
El Porvenir (coffee, tobacco, cattle)	100,994	18.1	163,645	16.1
Pinares (coffee)	4,480	0.8	9,197	0.9
CASFUL (coffee)	0	0.0	25,423	2.5
Cristo Rey (tobacco)	7,551	1.4	18,971	1.9
Los Angeles (horticulture)	9,361	1.7	47,236	4.7
Villa San Antonio (horticulture)	2,540	0.4	26,854	2.6
Subtotal	147,388	26.4	317,786	31.3
TOTAL	558,807	100.0	1,014,698	100.0
CASMUL, La Subirana, Santa Rosa	4,818[c]		452,762	
Others	24,931[d]		49,457[e]	
GRAND TOTAL	588,556		1,516,917	

Table 3 (continued)

One U.S. Dollar = Two Honduran Lempiras

[a]In order to be consistent with other tables, I have calculated percentages excluding (1) the three large and atypical coops La Subirana, Santa Rosa and CASMUL and (2) a group of miscellaneous coops which do not appear in the 1971 data and for which other data is sketchy. See notes d and e for their names.

[b]Commercial suppliers accounted for 51% of outside credit, the BNF for 24%, and FACACH for 25%. These figures cover the 1967-1972 period. From ACDI, Informe Final, 30 June 1973, p. 9.

[c]Represents a single loan to La Subirana. CASMUL and Santa Rosa received no AID/018 credit from FECOAGROH.

[d]These coops do not appear in 1971 data and other data for them is sketchy. They are San Francisco Atlántida, Pueblo Nuevo, Paraiseña, Espíritu Renovador, El Rosario, Lamaní, Atenas de León, La Esperanza de Arizona and La Reina de Jutiapa. Their credit was 4% of the total.

[e]The coops Moroceli, Antigua, Naco, La Esperanza de Arizona, Atenas de León, El Mochito, El Rosario, Lamaní, Jesús de Otoro, El Paraiso and La Reina de Jutiapa. These groups account for 3% of the total credit.

Source: AID/018 credit data from FACACH, "Summary Claim Reimbursement No. 25," 6-31 July 1974. Outside credit total based on data from FECOAGROH, "Informe Trimestral de FECOAGROH," Year-end 1970, 1971, 1972. 1970 data reprinted in ATAC, "Field Trip Background Report on Honduras," June 1971, p. 76. 1972 data reprinted in ACDI, "Informe Final," 30 June 1973, p. 15.

Table 4

FECOAGROH: Comparison of Services Supplied by FECOAGROH and by the Coops, 1970-1972[a]

	Credit					Input sales					Output sales					Ratios (for total figures		
	FECOAGROH[b]	Coops	Total	% FECOAGROH in total	% coops in total	FECOAGROH	Coops	Total	% FECOAGROH in total	% coops in total	FECOAGROH	Coops	Total	% FECOAGROH in total	% coops in total	Input: credit	Input: output	Credit: output
1970	171,336[c]	264,551	435,887	39.3	60.7	208,334[c]	286,274[d]	494,608	42.1	57.9	0	403,882	403,882	0	100.0	1.1	1.2	1.1
1971	420,764	437,468	858,232	49.0	51.0	296,650	628,061	924,711	32.1	67.9	70,387	205,292	275,679	25.5	74.5	1.1	3.4	3.1
1972	239,483	362,136	601,619	39.8	60.2	379,146	583,722	962,868	39.4	60.6	n.a.	n.a.	-	-	-	1.6	-	-
Total	831,583	1,064,155	1,895,738	43.9	56.1	884,130	1,498,057	2,382,187	37.1	62.9	-	-	-	-	-	1.3	-	-

Table 4 (continued)

One U.S. Dollar = Two Honduran Lempiras

[a] I have excluded the three atypical and large coops (La Subirana, CASMUL, Santa Rosa) which account for large proportions of the coops' own credit, supply sales and marketing sales, as shown in Table 2.

[b] FECOAGROH credit to coops was presumably from AID/018 funds exclusively. But those funds did not start disbursing until March of 1971, which puts in question the 1970 figure. Also, these credit figures for 1970, 1971 and 1972 sum up to L.831,583, which is 41% greater than L.588,556 of AID/018 funds to FECOAGROH coops (Tables 2 and 3). Since I have complete confidence in this latter figure, I assume that the FECOAGROH credit figures in the source for this table include credit from other sources--most likely, AID grant funds --and/or include the use of credit by the Federation for its own purposes, rather than for re-channeling to the coops.

[c] This figure is not available from the 1970 FECOAGROH quarterly report. It is taken from ACDI Annual Report 1973. The Annual Report figures for 1971 and 1972 are not completely consistent with the FECOAGROH data.

[d] This figure was available only for supply purchases (L.350,396). I multiplied this figure by the ratio of sales to purchases for these coops in 1971 (0.817) in order to get the figure for 1970.

Source: FECOAGROH, "Informe Trimestral de FECOAGROH," Year-end 1970, 1971 and 1972. 1972 report reprinted in ACDI, "Informe Final," 30 June 1973, p. 15; 1970 report is reprinted in ATAC, "Field Trip Background Report on Honduras," June 1971, p. 76.

Table 5

FECOAGROH: Comparisons of Contractor and FECOAGROH Performance Indicators, 1970–1971[a]
(lempiras)

Indicator	Year-end 1970			Year-end 1971			Percent improvement (1970–1971)		
		FECOAGROH qrtly report[c]			FECOAGROH qrtly report			FECOAGROH qrtly report	
	Contract summary report(all coops)[b]	All coops	All coops, excl. three[d]	Contractor summary report (all coops)	All coops	All coops, excl. three	Contractor summary report (all coops)	All coops	All coops, excl. three
No. of coops		28	25	n.a.	28	25	n.a.	0	0
Membership									
Total		3,196	2,865	n.a.	3,958	3,624	n.a.	23.8%	26.5%
Per coop		114	115	142	141	145	33%	23.7%	26.1%
Capital									
Total	[illegible]	289,265	86,599	n.a.	505,529	151,116	n.a.	74.8%	74.5%
Per coop	[illegible]	10,331	3,464	12,152	18,055	6,045	146%	74.8%	74.5%
Per member	45.9	99.5	30.2	85.8	127.7	41.7	86%	41.1%	38.1%
Input sales (outside FECOAGROH)									
Total	n.a.	683,427	286,274	n.a.	977,939	628,061	n.a.	43.1%	119.4%
Per coop	23,929	24,408	11,451	37,393	34,926	25,122	56%	43.1%	119.4%
Per member	222	213.6	99.9	395	247	173	18%[f]	15.5%	73.2%
Credit (outside FECOAGROH)									
Total	n.a.	565,210	264,551	n.a.	464,411	437,468	n.a.	-17.8%	65.4%
Per coop	9,801	20,186	10,582	15,921	16,586	17,499	62%	-17.8%	65.4%
Per member	91.0	176.8	92.3	112.1	117.3	120.7	23%	-33.7%	30.8%
Output sales (outside FECOAGROH)									
Total	n.a.	1,213,237	403,882	n.a.	210,380	205,292	n.a.	-82.7%[h]	-49.2%
Per coop	10,874	43,330	16,155	30,808	7,514	8,212	183%	-82.7%	-49.2%
Per member	100.9	379.6	141.0	416.9[e]	53.2	56.6	313%[g]	-86.0%	-60.0%

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Table 5 (continued)

[a]Credit, input sales and output (marketing) sales do not include those transactions carried out through FECOAGROH, to be consistent with the contractor's summary data. Though the latter does not specify what the data refers to, the averages are too small to include both independent and FECOAGROH transactions. The coops Naco, Moroceli and Antigua are in the 1970 data and do not appear in the 1971 data. In turn, the coops San Andrés, El Porvenir (Olancho) and El Esfuerzo appear first in the 1971 data. Thus the number of coops in 1970 and 1971 is the same.

[b]Contractor data is converted from dollars to lempiras. "N.a." indicates absence of data from contractor report. Though this aggregate data was available from FECOAGROH reports, as can be seen in other columns of the table, it did not yield the averages reported by the contractor in many cases. Contractor data is from ACDI/Honduras, "Memo re Annual Report," 13 June 1972, p. 3.

[c]Based on data from FECOAGROH,"Informe Trimestral de FECOAGROH," Year-end 1970 and 1971.

[d]Excluding La Subirana, CASMUL and Santa Rosa. These three coops were atypical, were established before FECOAGROH, and accounted for 70% of the capital of affiliated coops in 1971 and 36% of the input sales. See Table 2.

[e]The contractor report shows the L.416.90 deleted with pencil and L.217 written in.

[f]The contractor's arithmetic is in error here. The absolute values of 222 and 395 given by the contractor itself for 1970 and 1971 result in a 77.9% increase, rather than the 18% listed. This is perhaps a typographical error.

[g]The contractor report shows 313% deleted and 213% written in. The arithmetic of the pencilled insert is in error. The 1970 and 1971 (written-in) values of 100.9 and 217.0 give a percentage increase of 115% and not the 213% written in.

[h]This large decrease is to a great extent a result of zero entries in the FECOAGROH table for CASMUL and Santa Rosa in 1971 (Table 2). Since these groups have been strong and going concerns throughout the period, and had a combined value of output sales in 1970 of L.805,021, it is not likely that their sales would have fallen to zero in one year. The zero entries probably represent an omission of data.

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Table 6

FECOAGROH: Comparison of Coop Shares in AID/018 Credit and in Outside Credit, for Five Largest Shares, 1970-1972
(percentages)

Name of coop	No. of coops	AID/018 credit (through FECOAGROH)	Outside credit
El Porvenir		18.1	16.1
Santa Lucía		16.6	14.3
Chichicaste		11.6	8.5
Catacamas		9.8	12.7
Juticalpa		7.8	8.2
Subtotal	5	63.9	59.8
Others	20	36.1	40.2
Total	25	100.0	100.0

Source: Table 3.

INTER-COUNTRY EVALUATION OF SMALL FARMER ORGANIZATIONS: HONDURAS

IV - The National Development Bank: Case Study of a Small Farmer Program in a Large Farmer Institution

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October 1976

For Office of Development Programs of the Latin America Bureau of A.I.D.

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Introduction

With the Agricultural Credit and Storage Loan (018) of 1969 and the Agricultural Sector Loan (025) of 1974, the National Development Bank became AID's chosen instrument of small farmer credit in Honduras. The first loan was for US$9.5 million, and included $7.9 million for the Bank. In 1973, a further $744,000 was channeled through the Bank out of other 018 funds that had not been used. The second loan was for $12 million, which included $6.3 million for the Bank. More than $1 million of technical assistance accompanied these programs. Of the institutions in the agricultural sector, the Bank has received the largest amount of AID loan and grant funds.

The National Development Bank (BNF) did not start out as a specifically agricultural undertaking. It was created in 1950 for the purpose of providing development finance to all sectors. Before authorizing its first loan to the Bank in 1969, AID acknowledged that the BNF was not an ideal choice for a small farmer program or as a credit institution. The largest 2% of the borrowers were receiving 50% of the Bank's credit.[1] "Far too much" of the agricultural credit was considered to be invested in coffee, cotton and tobacco

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[1] U.S. Agency for International Development, Honduras Mission (AID/H), "Agricultural Development (Credit and Extension)," Noncapital Project Paper (PROP), Revision No. 1, Project No. 522-11-190-036.1, Airgram TOAID A-247, 11 December 1970, p. 6. Or, as a 1967 evaluation reported, 13% of the borrowers accounted for 77% of the credit. AID/H, "Evaluation of Banco Nacional de Fomento," Memo to Mission Director from N. M. Ward, 22 August 1967, p. 26.

(52% in 1967) instead of in the smaller-farmer crops--principally corn, rice and beans, the so-called "basic grains."[2] The Bank's financial situation was also considered wanting by AID. Delinquency was high--25%, not counting refinancing--a problem of which the Mission was "fully aware." The Bank had "not been able to operate profitably," moreover, and had never had an outside audit. It "objected to the employment of an outside independent auditing firm."[3] Finally, the Bank had not shown any interest in lending to small farmer groups. AID's small farmer cooperative program had "not been backed (more than a limited amount) by the BNF."[4]

With full knowledge of these drawbacks, AID chose the BNF for its small farmer credit program in 1969, 1973, and 1974 because it was, in a sense, the only institution around.[5] "A review of existing institutions," the 018 loan paper said in 1968, "revealed two with the

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[2] Ibid., 20.

[3] U.S. Agency for International Development, Latin America Bureau, Office of Development Resources (AID/LA/DR), "Honduras: Agricultural Credit and Storage," Capital Assistance Paper, AID-DLC/P-744, 20 June 1968, p. 38; "Evaluation of Banco Nacional de Fomento," 22 August 1967, p. 5.

[4] Ibid., p. 21.

[5] Because of the same knowledge, the World Bank decided at that time not to include the BNF as one of the participating banks in its first livestock loan to Honduras. "NDB's credit operations have been weak," the Bank's report said. "Of its total agricultural loan portfolio...46%...was either past-due, temporarily extended, or had been re-written... Although some improvement in its operations is underway, its credit and financial operations are not considered to be satisfactory." International Bank for Reconstruction and Development (IBRD), Agricultural Projects Department, "Livestock Development Project - Honduras," Report No. PA-21a, 16 December 1969, p. 4.

potentiality, given adequate resources and appropriate policies," of dealing with the problems of small farmer credit: the credit union federation FACACH, as discussed in a separate section, and the Bank. The Bank was chosen even though "it was directing its efforts largely toward producers of non-food export crops...and suffered from financial and organizational problems."[6] Including the credit union federation in the loan funds, then, was a kind of hedge against the risk involved in selecting an institution like the BNF. "While the BNF was to some extent reaching the subsistence and near-subsistence level farmer," the loan paper said, "a more efficient and effective means other than direct BNF credit was needed."[7] Hence $1.5 million of credit funds out of the $9.5 million loan were allocated to FACACH.

Cognizant of the problems of its choice from the beginning, AID accompanied its capital funds with technical assistance meant to help shift the Bank from large farmers to small ones and improve its management. After the loan started disbursing, more assistance was proposed by AID's auditors as a way of dealing with continued poor performance on delinquency. After noting that delinquency was twice the rate that had been specified by AID as a condition of further lending, a 1971 audit report recommended that the Mission get together with the Bank about the "necessity of seeking professional services

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[6] AID/LA/DR, "Honduras: Agricultural Credit and Storage," 20 June 1968, p. 20.

[7] Ibid., p. 22.

to review, organize, train and implement an effective collection department."[8]

Up to 1974, most of the BNF's small farmer credit had gone to individuals rather than groups. After that, the Bank was directed by the government to commit a considerable share of its small farmer credit to newly-established agrarian reform groups. In 1975, moreover, the Bank opened up a "Cooperative Window" through which AID sector loan credits were to be channeled to cooperatives. Even though AID's first loan to the Bank did not involve small farmer groups--and the sector loan credits for small farmer groups had not started to disburse at the time of my visit--I have analyzed parts of the BNF program for various reasons.

First, I have been impressed by the extent to which the fate of small farmer groups is determined in many cases by the way they are handled by the institution from which they receive credit. Groups have been made or broken, for example, by the way in which credit repayment problems were dealt with, or whether credit was disbursed in time for the planting season. The BNF provided an excellent opportunity to examine the relations between small farmers and their financing institutions, with a view toward understanding the nature of this important dependency--how it can constrain the development of small farmer organizations and how it might be used to the advantage of small farmers and their groups.

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[8] U.S. Agency for International Development, Office of the Auditor General, Area Auditor General - Latin America (North) (AID/AAG/LA), "USAID/Honduras, Agricultural Credit and Storage," Audit Report No. 1-522-71-114, Loan No. 522-L-018, 30 March 1971, p. 14.

Another reason for studying the case of the BNF is that AID's decision to finance small farmer organizations through the BNF in the Agricultural Sector Loan was in part a decision not to do this through FACACH (too small and no agricultural experience) or FECOAGROH (it had failed). Using a development bank for this task can be evaluated as an alternative to doing the same thing through federations of cooperatives and credit unions, or through small-farmer or cooperative banks--another approach commonly used by AID. In the BNF loans, moreover, AID chose to lend to an existing institution instead of, as in the case of FACACH and FECOAGROH, starting from scratch. The history of the latter two federations provided an opportunity to evaluate AID experience in starting new organizations. The BNF case, in turn, allows for a comparative evaluation of what happens when the Agency resorts instead to an existing organization that is admittedly not up to the task and not strongly committed to small farmers. An almost ten-year history of AID relations with the BNF gives us the chance to find out whether the organizational changes desired and programmed by AID have taken place, or are on their way to being made.

The BNF case also provides some insight into the question of whether it is possible to re-orient a large farmer institution toward smaller farmers and their groups. This has been the objective of many foreign assistance projects, involving ministries as well as banks. Opinion is divided on this question, with some believing that a separate small farmer institution will never gain the necessary political power. Others say there is too much of a difference between serving large and small farmers, and too much conflict of interest, to put them together in one institution.

Whether a small farmer program can be implanted in a large farmer institution leads to another question: what happens when AID gets together with a recipient-country institution that is interested in a loan for purposes somewhat different than those concerning AID? It is probably more the rule than the exception that foreign assistance projects involve some dichotomy of interests between borrower and lender, as illustrated in the BNF story told below. Once outside funds get inside an institution, however, they are fungible with others. It is not surprising if the institution sometimes ends up doing what it wanted to do in the first place, while at the same time paying token obeisance to the AID objectives.

It is also possible that an institution with interests different from AID's can end up taking a genuine interest in the AID objectives. It may perceive after a period of time that the behavior desired by AID brings high rewards in the form of continued foreign assistance. The long AID association and the accompanying technical assistance, moreover, give the institution experience with something previously unknown to it. This may result in socializing the institution's personnel to the "worthiness" of the AID objective. The question is an important one because it determines whether AID should continue selecting uncommitted institutions as conduits because they are the only ones around; or whether the Agency should invest its rural development resources only in institutions with a proven record of commitment to the AID objective. The BNF story also provides insights into this question.

The Divergence of Donor and Recipient Interests: Seed Capital vs. Small Farmers

As shown above, relations between AID and the BNF commenced in the mid-1960s around a loan proposal that had nothing to do with agriculture or small farmers. The 1969 loan to the BNF originated in a 1966 proposal by the Hondurans that AID purchase Honduran government bonds for the purpose of capitalizing the BNF. AID objected to the bond-purchase proposal, not because it did not want to capitalize the bank, but because of the local-currency financing involved. It proposed instead to capitalize the bank through a loan, and no mention was made in the loan proposal of small farmers or basic grains.[1] At the start, there was no interest on either side in credit for a specific purpose or in the building of grain storage facilities. To the contrary, the Mission wrote the Hondurans, "we will seek to accommodate the disbursement of the AID funds to the needs and patterns of the BNF as easily and quickly as possible."[2] AID's interest in the project was to make of the BNF a stronger institution, "so that it can more effectively support the development of Honduras."[3] The project was

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[1] AID/H, "Honduras - Banco Nacional de Fomento," Intensive Review Request (IRR), LA-CAEC/P-67/60, 15 March 1967, p. 2.

[2] Excepting the customary limitations on financing certain crops in world surplus. AID/H, Letter of Mission Director to Minister of Economy and Finance and President of Banco Nacional de Fomento, 21 April 1967, pp. 1-2.

[3] Ibid., p. 1.

seen as a "seed capital loan, although in this case it would be for the benefit of an institution which has been operating for several years."[4]

Not only did AID and the BNF both start out uninterested in small farmers or agriculture, but AID itself explicitly excluded the possibility of a small farmer program. "We will probably not, in all likelihood," wrote the Mission to the BNF president and the Minister of Economy in early 1967, "attempt to channel our funds into new programs which are difficult for you to commence such as new valley development programs, or <u>supervised credit for small farmers</u>."[5]

AID's and the Honduran government's original interest in promoting the BNF as a development institution, rather than in small farmer agriculture, reflected a common approach to development during the 1950s and 1960s. At that time, state development banks were a popular aspect of development programs in Latin America. This resulted in good part from the thinking of foreign assistance organizations and the development literature of the period. The literature had posited capital as "the missing factor" in underdeveloped economies, and saw foreign assistance as capable

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[4] <u>Ibid</u>.

[5] <u>Ibid</u>., p. 2. Emphasis mine.

of supplying that factor with large injections of capital. Development banks were to be the instruments of the injections. Up to the mid-1960s, then, development banks were looked at as goals in themselves. They were seen less as instruments for achieving growth in any particular sector or target group, in contrast to the two AID loans to the BNF that finally emerged. In fact, if there was any sectoral emphasis during the development-bank period, it was on industry rather than agriculture.

As early as 1967, a divergence between AID's and the Bank's interests started to appear. Washington felt "uncertainty with regard to the loan proposal, due largely to the past performance of the [Bank]."[6] That, along with local-currency worries and an interest by the Mission in re-orienting its agriculture programs, led to more structured proposals. The new areas of emphasis involved fertilizers, seeds and insecticides, cattle importation, agricultural and agricultural-transport machinery and vehicles, construction of grain silos, industrial credit for U.S. procurement of equipment and raw materials, and crop credit.[7] At this early stage of the transition in AID's interest, the list of agricultural items for financing seemed more indicative of import maximization concerns than of

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[6]AID/H, "Minutes of Latin America, Capital Assistance Executive Committee Meeting," 30 March 1967, p. 1.

[7]AID/H, "Honduras - Banco Nacional de Fomento," (IRR), 15 March 1967, p. 3.

interest in the agricultural sector. Later in 1967, an evaluation of the Bank commissioned by AID recommended further that the Bank lend less for the "export crops" coffee, cotton and tobacco, and more in the "neglected" categories of basic grains (rice, corn and beans) and livestock.[8]

The end result of the Hondurans' seed capital proposal was an "Agricultural Credit and Storage" loan for US$9.5 million, authorized in 1969, whose "primary purpose" was to "eliminate or reduce the impediments to achievement of desired agricultural growth goals."[9] The BNF portion of the loan would amount to $7.9 million, of which $2.9 million was for construction of grain storage facilities and $5 million was for agricultural credit--the part that concerns us here. (The rest was for farmer cooperatives, to be channeled through the credit union federation.) The credit program was meant to help the government achieve its 1969 and 1970 agricultural production goals "for the basic food and feed grains of corn, beans, rice and sorghum and for livestock."[10] Credit was to be limited to small and medium farmers. The Agricultural Credit and Storage loan, then, had come a long way from the original concern over securing seed capital for the National Development Bank.

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[8] AID/H, "Evaluation of Banco Nacional de Fomento," 22 August 1967, pp. 20-22.

[9] AID/LA/DR, "Honduras: Agricultural Credit and Storage," 20 June 1968, p. ii.

[10] *Ibid.*, pp. i-ii.

A "secondary" objective of the loan was to improve "the operations and effectiveness of the BNF."[11] But the loan's objectives said nothing about capitalization of the Bank. It was clear, however, that the concern for capitalization was behind some of the features of the loan. The Honduran government was to donate the loan to the BNF, which would not have to pay either interest or principal on it. The Government would take on "the budgetary burden of interest and principal payments of the BNF as a capital contribution," as a way of increasing "significantly [its] originally planned rate of capitalizing the BNF."[12]

There are various reasons for the change in AID's interests to a grain marketing and production project emphasizing small farmers. The project seemed to almost drift into agriculture. There were the local currency concerns cited above, the interest of some agriculturalists in the Mission, and an increasing interest in developing Honduras' comparative advantage in grains production within the Central American Common Market. The drift into agriculture was ultimately fixed by the 1969 U.S. Presidential directives to AID to focus attention on agriculture and small farmers. This was intensified in the early 1970s with the concern over income

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[11] Ibid., p. ii.

[12] Ibid., p. 15.

distribution and rural poverty. Ironically, then, the project tended toward agriculture in order to, among other things, beef up U.S. imports. Yet it ended up with a relatively high local currency component (42%) because of the 1969 directives exempting agriculture from rigorous local-currency ceilings.

The marked change in AID's BNF project, and the reasons for it, are significant only if they affected the program's execution. What was the impact on the program, that is, of a situation in which the recipient's interests were quite different from those of AID? The Hondurans, that is, had given in to AID (1) by taking credit instead of bonds, (2) by taking credit limited to specific projects and specific kinds of crops and borrowers, and (3) by channeling $1.5 million of the loan through FACACH instead of the BNF. At the same time, as mentioned above, the Bank would not have to pay interest or amortization to the Honduran government on the AID funds. Improvement in the Bank's financial management, however, was an important goal of the AID loan and its technical assistance.

AID has argued in other circumstances that interest-free credit or outright grants to individuals and organizations leads to inefficient allocation of resources and bad habits of financial dependency. Though the granting of AID money to the Bank for free fit in with the original capitalization objective of the project, this also took away one of the few incentives to the Bank in the design of the program to tighten up its financial management. In a sense, this arrangement perpetuated the past, whereby the Bank had become a "well-capitalized" institution through about US$11 million of interest-free grants from the government, but ended up "living on about one-half of [that] capital" because of losses resulting in good part from past-due accounts.[13] AID's argument against interest-free capital, let alone donations, would have been especially relevant to this particular institution, which had been in existence for almost twenty years.

In 1973, the opportunity arose again for AID to make a more rigorous arrangement with the Bank. A good portion of undisbursed 018 funds, originally designated for FACACH, were about to be deobligated. AID had been urging more cooperative lending on the Bank for some time, without success. The Bank wanted the $744,000 badly, so it agreed to set up a Cooperative Window to get it. Again, the Honduran government donated the funds to the Bank. This was in contrast to the arrangement with FACACH, which had to pay both interest and amortization to the government on its $756,000 portion of the 018 loan. In 1974, AID provided the Bank with another $6.3 million for credit under the same arrangement--a donation from the Honduran government. This time, it was AID that wanted the funds donated rather than lent by the government to the Bank, out of its

[13] IBRD, "Livestock Development Project - Honduras," 16 December 1969, p. 4.

desire to capitalize the Cooperative Window.[14] When the 1974 loan was authorized, the Bank's delinquency problems had shown little improvement, according to AID's own analysis, from the time the first loan had been negotiated seven years before. The delinquency problem is discussed further below.

In the rollover arrangements of the BNF loan, the original capitalization goals also seemed to take precedence. The loan agreement specified that the rollovers of 018 funds would have to be used for the same purposes until December 1972--i.e., for small producers of grains and livestock.[15] But 65% of the 018 credit went for medium-term livestock loans with 3-5 years maturation, and payments due in annual installments. A good part of the portfolio, then, would not even start rolling over before 1973. It could thus be lent by the Bank, the second time around, wherever it liked. Most of the 018 loan funds, moreover, were disbursed in 1971 and 1972. Thus a good deal of the short-term credit would also escape the rollover conditions.

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[14] "The rationale for proposing that the Government relend AID funds [to the BNF] on harder terms than the AID loan to the Government (and the original agreement) is not sufficiently justified. In addition, we believe that the Mission should explore the possibility of the GOH providing the $744,000 on a grant basis (i.e., as capital) for the BNF cooperative loan department." AID/LA/DR, "Honduras - Agriculture Credit and Storage - Loan 522-L-018," Action memo to the Deputy U.S. Coordinator, 22 February 1974, p. 2.

[15] U.S. Department of State, Inspector General of Foreign Assistance (IGA), "AID Loans to Honduras," Memo to the Inspector General, 16 February 1973, p. 4.

Though the delay in disbursement was not anticipated when the rollover termination date was set, no attempt was made by AID to extend it. Even if the funds had started disbursing in 1969, that would have allowed for only one complete rollover back into the small farmer program, and even then, on about a third of the credit. By May 1972, that is, 40% of the portfolio had fallen due and, because of delinquency, only 32% had returned to the bank.[16] Since the Bank's pre-AID agricultural lending was outside basic grains and livestock, and since half of its total lending was outside agriculture, there was a strong presumption that the 018 credit would roll over outside the realm of the small farmer. This would mean a short life for a program that was supposed to build up long-term institutional capacity to serve small farmer borrowers.

In early 1973, an audit report expressed concern over this issue for somewhat different reasons, and suggested that the loan agreement be amended so as to require AID funds to roll over in the program for another five years. The auditors were concerned that the Bank would re-lend the funds at higher interest rates.[17] AID agreed with the auditor's recommendation, and indicated that discussions between the BNF and the Mission on this issue had

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[16] AID/H, "Estudio de evaluación del programa de crédito supervisado del Banco Nacional de Fomento," by Reinaldo W. Santos Santiago, USAID/ACDI-BNF, August 1972, p. 29.

[17] IGA, "AID Loans to Honduras," 16 February 1973, p. 14.

already commenced.[18] There were no rollover stipulations, however, in the loan amendment.[19] In the 1974 sector loan that followed, AID did require that the government maintain the level of the Coop Window's funds, if they should fall below the level specified in the program.[20] This requirement would be in force throughout the period of loan disbursement, which was scheduled to end in 1978. A revolving fund was not required, however, even though the concept was used for another part of the loan (seed systems credit). The final disposition of the funds was to be determined by AID and the BNF when the program terminated.[21] Thus the use of these funds, meant by AID for small farmer groups, would probably be up to the Bank after the few years of loan disbursement. This gave the credit almost the same amount of time to stay with small farmers as did the first loan to the Bank.

The Cooperative Window did not have its own financing within the Bank. In addition to the AID funds, which were segregated in a separate account, Window credit came from the Bank's general funds. Since the Window had no decisionmaking autonomy within the

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[18] U.S. Agency for International Development, Latin America Bureau, Office of the U.S. Deputy Coordinator (AID/LA/DRR), "IGA Report on AID Program to Honduras," Information memo for the Administrator, 14 June 1973, p. 16.

[19] AID/H, "Second Amendment to Loan Agreement No. 522-L-018," 5 April 1974.

[20] AID/LA/DR, "Draft Loan Authorization for Loan No. 522-T-025," 28 June 1974, p. 6.

[21] AID/LA/DR, "Honduras - Agriculture Sector Program," Capital Assistance Paper, AID-DLC/P-2051, 14 June 1974, p. 28.

Bank, it was not likely that it would have the power to hold onto the funds. Even if the AID funds were to stay within the Window, after the disbursement period, the target group of the AID program might well not be served. About 90% of the Bank's coop lending went to the better-established coops that produced export crops--coffee, bananas, cotton and sugar.[22] There was little, in sum, to keep the AID funds on the target group after project termination.

AID was fully aware of these weaknesses of the Coop Window arrangement. It had pushed the Bank as hard as it could for a more independent and stronger Window. The Bank, in turn, had resisted, partly because it did not want to create in its own midst a power base for the cooperatives. The coops might thereby be able to wrench their financing away from the Bank altogether--as had happened in Costa Rica, with AID help. AID's weak Coop Window, then, may turn out to be a first step in a strategy aimed in that direction. It is now too early to tell.

This story of rollover problems and capitalization concerns is told as a historical setting for the findings that follow. It is important to keep in mind that the BNF projects

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[22] The information in this paragraph is from AID/LA, Office of Multilateral Coordination and Regional Social Development Programs, Social and Civic Development Division (MRSD/SCD), "The Credit Component: A Semi-Analytical Report to USAID/Honduras to Assist in Preparation of the Capital Assistance Paper for the 1974 Agricultural Sector Loan," by John Heard, April 1974.

originated in the interest of both AID and the Hondurans in capitalizing the BNF as a development bank--with no special reference to agriculture or small farmers. It was AID, and not the Hondurans, who first pushed the project toward small farmers and agriculture. The Hondurans must have perceived, as is frequently the case with poor governments facing flush donors, that if they went along with AID's small farmer interests, substantial amounts of scarce capital could be obtained. As AID itself said, the Honduran government of 1967 "had neither clear-cut agricultural policies nor specific programs of action." Nevertheless, the government "endorsed the [AID] analysis and supported the [AID] objectives sought."[23]

The BNF was not a reluctant participant in the agricultural aspect of the first AID loan. The grain storage program would strengthen the Bank's capacity in an area where it had operated in the past. Grains production, moreover, had come to the center of government attention in the late 1960s because of the attempt to integrate Honduras into the Central American Common Market and the problems with El Salvador. The small farmer as such was of less concern at that time. The Bank's large farmer lending patterns showed this,

[23] AID/LA/DR, "Honduras - Agriculture Sector Program," 14 June 1974, p. 20.

as discussed below, as well as the opposition to having an AID credit program for farmer cooperatives. AID itself was not that focused on the small farmer during the period leading up to the first loan. The 018 loan paper included medium as well as small farmers and the credit and asset ceilings defining the target groups were quite liberal--as will be seen below. By the time of the second loan to the Bank in 1974, however, the small farmer emphasis of AID completely dominated, and the paper designated its target group in more exclusive terms.

The AID-BNF relation, then, passed through several transitions of interest and emphasis. What was constant, however, was that AID always took the lead on the small farmer question, and urged the Bank to do more than it would have done on its own. This urging was explicit in the goals and conditions set forth by AID in the 1969 loan paper and agreement. The following sections examine the BNF performance to date with respect to the most important goals and conditions specified by AID. The results also throw light on the questions posed above in the introduction.

Lending Less to Large Farmers: From Export Crops to Basic Grains

The Agricultural Credit and Storage Loan did not simply encourage the BNF to open its doors wider to small farmers. AID set explicit conditions on the Bank with respect to decreasing its lending to large borrowers. Coffee, cotton and tobacco borrowers were singled out as those to which Bank attention would have to be reduced. These export crops accounted for 52% of the Bank's agricultural credit in 1967--14% for coffee, 29% for cotton, and 9% for tobacco (Table 1). The adverse sentiments about the three crops originated in an evaluation of the BNF that AID sponsored in 1967. Cotton and tobacco, the report said, were produced by large farmers and accounted for the Bank's largest delinquent accounts. Coffee credit should be reduced for similar reasons, the report said, and also as part of a program to encourage diversification out of crops considered to be in world surplus.[1] One of the six major goals of the AID project, therefore, was to "limit public support to cotton and tobacco producers" and "concentrate on a meaningful crop diversification program which de-emphasizes coffee production."[2]

AID directed the Bank in the Loan Agreement to "pursue a

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[1] AID/H, "Evaluation of Banco Nacional de Fomento," 22 August 1967, pp. 23-24.

[2] AID/LA/DR, "Honduras: Agricultural Credit and Storage," 20 June 1968, p. 22.

policy of refusing subloans to all credit clients who can obtain credit from commercial sources...particularly in the case of the BNF's larger loans for cotton, tobacco and coffee production."[3] In a covenant to the loan agreement, moreover, AID specified that credit for these crops in the years 1969, 1970 and 1971 was "not to exceed the 1967 level of such BNF credits for each crop."[4] Finally, the loan paper projected that the share of these three crops in the Bank's agricultural credit would fall from its 1967 level of 52% to 39% by 1972. At the same time, grains credit was projected to increase from 12% to 18%, and livestock credit from 30% to 39%.[5]

Honduras was somewhat different from other Central American countries in that large landowners were less associated with commercial crops than with livestock ranching. Coffee and tobacco, if not cotton, were noted for being medium-farmer rather than large-farmer crops in Honduras. The coffee elite of El Salvador, for example, did not exist in Honduras. Cotton, in contrast, was associated with large farmers, though this was a recent development and was limited to the southern coastal region of the country. In effect, then, the 018

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[3] AID/H, "Implementation Letter No. 1 of Loan Agreement No. 522-L-018," 11 June 1969, p. 10.

[4] AID/LA/DR, "Honduras: Agricultural Credit and Storage," 20 June 1968, Annex 7.

[5] *Ibid.*, Table X.

loan proscribed two-medium-farmer crops in the name of excluding large farmers and even though loan criteria included medium farmers. At the same time, it allowed financing for livestock, and urged the Bank to increase its share of credit for that activity. Although livestock ownership was not limited to large farmers, livestock ranching was certainly more associated with them in Honduras than were the proscribed crops, a point I return to in the livestock section below.

AID's concern about the three crops may have had more to do with the fact that they were traditionally not allowable for AID financing than that they were associated with large farmers. Coffee and cotton were considered in world surplus by the U.S. Department of Agriculture at that time, and tobacco was in a similar category because of the acreage controls on U.S. production. AID was usually constrained in its agricultural projects to exclude the crops so defined by the Department of Agriculture. Even though AID could prohibit the BNF's use of its (AID's) loan funds for the proscribed crops, that institution was lending more than half its funds for these prohibited crops--a situation that could not be changed by restrictions on the AID credits only.

Though the reduction of credit to the export crops was a covenant of the loan agreement, there seems to have been no later feedback on Bank performance in this area--even when the Bank was being strongly considered for a second loan starting in 1973.[6] Statements that the BNF had proven itself worthy of further AID lending for small farmers were based mainly on figures showing increased numbers of BNF loans to small farmers. "Some 80% of

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[6] AID/H, "Rural Sector Intensive Review Request (IRR)," DAEC/P-74/6, September 1973; AID/LA/DR, "Honduras: Agriculture Sector Program," Report for the Development Assistance Executive Committee, 21 February 1974; AID/LA/DR, "Honduras - Agriculture Sector Program," 14 June 1974.

the total number of borrowers," a report to the DAEC said, "receive loans of less than $1,250."[7] Or, it was said, the Bank was reaching 6% of the small farmers in the country, whereas before it was only serving 2-3%.[8] Presumably, this meant that the Bank had accomplished a reduction in credit to the non-small-farmer groups, as covenanted in the loan agreement.

By 1974, the Bank actually seemed to have gotten its export crop credit down--it was 41% of agricultural credit, only a bit shy of the 39% projected by AID for 1972 (Table 1). But the absolute value of the export crop credit was far beyond the 1967 level--the amount that was not to be exceeded, according to the loan covenant. By 1974, that is, export crop credit was twice the 1967 level, and twice the level projected by AID for 1972.
As noted above, moreover, coffee had been singled out for special adverse attention in the loan paper because of diversification concerns. Yet coffee did the <u>best</u> of the three crops in terms of credit increases in the Bank. It was the only one of the three crops to actually increase its percentage share of Bank credit, from 14% to 15%. (Cotton and tobacco decreased their share, from 29% to 24% and from 9% to 3%, respectively.) The absolute amount

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[7] AID/LA/DR, "Honduras: Agriculture Sector Program," 21 February 1974, p. 8.

[8] AID/H, "Estudio de evaluación del programa de crédito supervisado," August 1972, p. 8.

of credit for coffee increased two and a half times by 1974, while cotton increased two times; tobacco credit decreased by 50%. Thus although the percentage of these crops in total BNF credit had decreased during the 1967-1974 period, the absolute value of BNF credit for them had increased substantially--contrary to the covenant of the loan agreement.

It is ironic that coffee did so well in the Bank during the 1967-1974 period. The 018 loan paper reported in 1969 that the Bank had a Coffee Section, accounting for a large proportion of its employees. The Section was financed out of an export tax on coffee, and provided technical assistance and credit supervision to coffee growers.[9] The 1967 evaluation of the Bank recommended that the Section be transferred to the private sector--in accordance with the policy of reducing the Bank's assistance to those who could afford to get it elsewhere.[10] AID decided not to push for this transfer, however, on the grounds that it "would be counterproductive to coffee diversification objectives."[11] The Coffee Section was to stay in the public sector, in short, so the government could have more control over getting farmers out of coffee.

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[9] AID/LA/DR, "Honduras: Agricultural Credit and Storage," 20 June 1968, p. 37.

[10] AID/H, "Evaluation of Banco Nacional de Fomento," [illegible] August 1967, p. [illegible].

[11] AID/LA/DR, "Honduras: Agricultural Credit and Storage," 20 June 1968, p. 37.

Despite all these arrangements, the Bank's credit for coffee not only more than doubled during this period, but production itself increased in the same proportion (Table 2). Thus in 1974, the Bank was financing almost the exact same percentage of the value of coffee exports as it was in 1967 (Table 2).[12] Keeping the Coffee Section in the Bank, in short, had not helped the Bank to get out of coffee.

If credit to the proscribed crops increased, then how can one explain the actual percentage decrease in the share of the proscribed crops in Bank credit? The decreased share turned out to be more a result of an unprojected increase in total BNF credit from outside sources--rather than an actual shift of attention away from coffee, cotton and tobacco. After the issuance of the agrarian reform decree in late 1972, the Honduran government channeled considerable amounts of credit to the new agrarian reform groups through the Bank, mostly for use in basic grains. As a result of these Decree 8 credit injections, total Bank credit available for agriculture in 1974 was almost twice the level projected by AID in 1967 for 1972; it was 60% greater in 1974 than it would have been if it had followed the 6% annual growth rate projected by AID (Table 1). The percentage decrease of the export crops in the

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[12] I do not have good enough data to make this comparison for cotton and tobacco. Some work with the data suggests that the level of involvement of the BNF with cotton production was even greater in 1974 than it was in 1967.

Bank's lending, then, was in good part a result of an abrupt and unanticipated increase in the denominator--total Bank credit--than anything else.

These findings raise the question of "substitution," which has often plagued AID programs. Did the AID loan allow the Bank to simply substitute AID funds for basic grains lending it might have done out of its own funds anyway? Did AID thereby fail in getting the Bank to engage in less large farmer lending and more small farmer lending? Did the loan facilitate an <u>increase</u> rather than a decrease in lending for the three export crops, as well as an increase in the share of their production financed by the Bank? A breakdown of BNF agricultural lending by type of crop and source of financing throws some light on this question.

In 1974, the BNF's own funds accounted for 46% of its lending (Table 3). AID and IDB funds, which were restricted to livestock and/or basic grains, accounted for another 30%; Central Bank funds, representing mainly the government commitment to grain-producing agrarian reform groups, accounted for the remaining 24%. This "outside" 54% of the Bank's funds, then, could not be used for lending in coffee, cotton and tobacco. In the share of credit that came from the Bank's own funds, the share committed to coffee, cotton and tobacco rose from 66% in 1967 to 79% in 1974 (Table 3). For basic grains, the share was 5% in 1967 and 6% in 1974. Thus the AID loan, along with the funds from the IDB and the Central Bank, were not associated with a diminution in BNF lending for the three proscribed crops.

There is an ironic parallel to this outcome in AID's current loan to the BNF's Coop Window, a major conduit of small farmer credit under the Agriculture Sector Loan. An AID evaluation of the Bank, made shortly before the sector loan was authorized, reported that Window lending "indicates a basic orientation still toward larger export oriented middle-class co-ops."[13] The majority of the Window's current and projected lending, that is, goes for cotton, bananas, sugar and coffee--89% in 1974 and 80% projected for 1978. Reminiscent of the first BNF loan, AID prohibited the use of its Coop Window funds for coffee, cotton and tobacco (and sugar too).[14] The 1974 evaluation,

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[13] AID/LA/MRSD/SCP, "The Credit Component," April 1974, pp. 18-20.

[14] AID/LA/DR, "Honduras - Agriculture Sector Program," 14 June 1974, p. 28.

like the one preceding the first loan, suggested that "some sort of formula should be applied which will insure that our financing simply does not replace what would have gone to small farm groups anyway, freeing up other resources for larger more affluent borrowers." My data on BNF credit before and after the first AID loan suggest that any such formula, like the covenant of the first BNF loan, is unlikely to prevent the kind of "replacement" or substitution that concerns AID.

All this does not say anything about the small farmer lending that the Bank did do. The continued involvement of the Bank in the three export crops, that is, may not have been incompatible with the building up of an effective small farmer credit program in the same institution--albeit financed by outside sources. Other data throw light on this question.

Did the Bank Lend More to Small Farmers?

In the documentation prepared for the first BNF loan, AID pointed out that the size distribution of the Bank's lending indicated a bias toward larger loans.[1] An AID document of 1970 showed that less than 2% of the borrowers were taking more than half the Bank's credit in 1967.[2] AID did not specify a more desirable distribution of loan sizes, as it had for the distribution of credit between export crops, grains and livestock. The number of small farmer borrowers was simply expected to increase as a result of the AID program, and these absolute increases were pointed to in later evaluations.

In late 1972, the Mission's presentation to the Spring Review of Small Farmer Credit characterized the BNF as "concentrating its operations in the agricultural sector, especially with the small farmer." The number of small farmers recently served by the Bank, the report said, was about 81% of total borrowers and 18% of loan value. Starting with the 1969 AID loan, the Bank had given a "new impulse" to small farmer credit in Honduras and was the "leading institution" in the field. The report said that the Bank was now financing 8,700 small farmers--3,450 out of its own funds and 5,250 out of AID's.[3]

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[1] AID/H, "Evaluation of Banco Nacional de Fomento," 22 August 1967, p. 26.

[2] AID/H, "Agricultural Development," PROP, 11 December 1970, p. 6.

[3] AID/H, "El crédito para el pequeño agricultor en Honduras," by Reinaldo W. Santos Santiago, USAID/ACDI-BNF, August 1972, p. 4. Translation mine.

A look at BNF loan-size distributions before and after the AID loan gives a better idea of the extent to which this shift to small farm lending occurred. Tables 4a and 5, and Figure I, show that the distribution of AID's 018 credit was, indeed, considerably more equitable than that of the Bank's total lending in 1967 and 1974.[4] Whereas the top 10% of the borrowers had 76% of total Bank credit in 1974, they had only 36% of 018 crop credit and 49% of 018 livestock credit. But the size distribution of total Bank lending for 1974 shows no shift toward a less concentrated position, compared to 1967. If anything, the 1974 distribution of total Bank credit is slightl more concentrated than the 1967 one, as Figure shows. In 1974, the top 10% of the borrowers accounted for 76% of the credit, whereas in 1967 they accounted for 72%. The non-AID portion of Bank credit, accounting for 89% of BNF lending in 1974, would be slightly more concentrated, since AID funds were much less concentrated than the total.

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[4]The size distribution data for the AID loans is taken from a sample of about 5% of the 018 portfolio, described below. Size distribution data for Bank credit in general was available for total bank lending only, not just agriculture. Agriculture accounted for 50% of Bank lending in 1967 and 83% in 1974. The exact size distribution data of Table 4a does not allow comparison between years and types of credit because it is not standardized into deciles of borrowers. In lieu of such standardized data, I have transformed the data of Table 4a into the Lorenz curves of Figure I. From the curves, I have read off the size distribution data of Table 5, which is standardized but must be taken as approximate.

One of the explanations sometimes given by AID and the BNF for the high concentration of BNF lending is the fact that the data include large loans to coops and other farmer groups as single loans--thus exaggerating the concentration of loans among large borrowers. Unfortunately, breakdowns of the data on credit to groups are not available for 1967, though they exist for 1974 (Table 4b). I have attempted to incorporate this consideration into the data by recalculating the 1974 size distribution of BNF loans in three ways: (1) by excluding groups (i.e., asentamientos and coops); (2) by redistributing all group loans according to an estimated individual value, calculated by dividing the group's loan value by the number of beneficiaries; and (3) by estimating these per-individual values for asentamientos only (for reasons explained below). The results are shown in Figure I.

The first recalculation (excluding groups) shows that the top 10% of the borrowers account for 64% of the credit, in comparison with 76% when groups are counted as one (Tables 4a and 5). This is still well above the concentration of the AID-018 credits. As can be seen from Figure I, moreover, this 1974 distribution without groups is not significantly less concentrated than the 1967 distribution with groups.[5]

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[5]It might also be argued that the Bank's loan size distribution of 1974 is more concentrated than that of 1967 only because of the increase in large loans to farmer cooperatives and other groups in the 1970s, which are counted in the total as single borrowers. Such groups account for 37% of total loan value (Table 4b). But most of the Bank's coop lending is to successful export crop groups, which have been organized for some time. (AID/LA/DR, "The Credit Component," April 1974, pp. 18-20.) It is therefore likely

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The second recalculation--with all group loans estimated at their per-beneficiary value--shows a distribution curve more equal than the original 1974 curve, but still more unequal than the AID-018 credits. This second recalculation does not allow comparison with the 1967 curve, because coop credit was also granted in that previous period, but cannot be broken out on a per-individual basis. I have therefore made a third recalculation of the loan-distribution curve, including only the credit to asentamientos on a per-individual basis. Since the 1967 data include coop credit and no asentamiento credit, this third estimation is the closest I can get to a comparison with the 1967 data. As Figure I shows, this third curve is more or less the same as the 1967 distribution. The data suggest, in sum, that the distribution of BNF loans by size was not much less concentrated in 1974 than it was in 1967--before AID's program started.[5a]

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that many of these groups were also in the data in 1967. Though the post-reform groups (asentamientos) were not on the scene in 1967, they account for no more than 23% of the value of group loans, and only 8% of the total loan value. The increase of asentamientos and cooperatives in the value of loans to groups was probably more than compensated for by the decrease of commercial and industrial lending in the Bank's total from 50% in 1967 to 17% in 1974. Commercial and industrial loans were concentrated almost exclusively in the larger categories.

[5a]The Honduras Mission points out that whereas the BNF lent to 391 groups in 1974, that figure more than doubled in 1975 to 1300 groups, reflecting a significant change in the BNF's group lending. When this paper was revised in September 1976, 1975 BNF loan data were not available.

The Distribution of AID Credit Between Large and Small

Given the tenacity of the concentration of BNF lending in the large loan-size categories, it is impressive that the Bank was able to achieve a much less concentrated distribution in its 018 lending. Up to now, AID has not engaged in analyses of the size distribution of its agricultural credit programs and of their delinquency problems, even though such analysis does not involve additional demands on a bank for data; individual loan cards contain all the raw data that is necessary. Such analysis can provide useful information, among other things, on the handling of a small farmer program by an originally large borrower institution. It draws attention to the areas which are particularly vulnerable to larger-borrower intrusions and which therefore need more careful attention.

I have compiled a sample of such data in an attempt to demonstrate the simplicity and low cost of such an effort and its usefulness to AID. The results of the sample are presented in this section and the one following on delinquency. The sample comprises the total 018 loan portfolio for small farmer credit of the La Playa branch of the BNF.[1] The La Playa
branch accounts for about 5% of the total credit of the BNF system, and about the same percent of delinquency and refinancing (Table 6). The 018 loan portfolio in La Playa was comprised of 437 loans,

[1]"La Playa" is a fictitious name for one of the bank branches.

which were completely disbursed by December 1972 (Table 7b).[1] Five percent of the total number of loans was still active in August 1975--mostly in livestock--amounting to 24% of loan value. The La Playa portfolio accounted for 4% of 018 loans and slightly less than 4% of loan value--porportionate to the branch's share in overall BNF lending. The delinquency of the branch's 018 portfolio was 21%, compared to 18% for the total 018 program. The 018 credit of this branch was divided between 73% for livestock and 27% for grains--compared to 64% and 36% in the total portfolio. The La Playa branch, in sum, was reasonably representative of the BNF system. Given the small size of the sample, it is impressive that the data demonstrated the trends and consistencies that it did.

Most of the grains credit in this sample went for corn--89% compared to 68% for all 018 grains credit. Grain loans were short term working capital loans, to be paid off within a year or less.

[1a] I have excluded two group loans, because the rest of the credit was to individual small farmers. One group loan was for L.3,650 and the other was for L.20,000. The two loans amounted to 4% of the branch's 018 portfolio. I have also excluded two loans for African palm cultivation to a large agroindustrial firm, because they were made under the agroindustrial rubric of the 018 program. The loans amounted to L.600,000, which was 10% greater than the total value of the small farmer credit portion of this branch's 018 portfolio.

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Livestock loans all went for investment in dairy and beef cattle--purchase of stock, pasture formation, fencing and other structures (see, for example, Table 20). Eighty-five percent of the value of livestock loans in the sample was for dairy cattle, and 15% for beef cattle (fattening and breeding). Short term credit for livestock was not available. The livestock loans were made for three-to-seven-year periods, with interest and amortization falling due in annual installments after the first year. As noted above, grains accounted for only 36% of the value of the total 018 portfolio and 27% of the La Ceiba branch, even though grains were the major focus of the 018 program. Why livestock accounted for such a large share of a "grains" program will be discussed below.

One crucial piece of information was not available from the loan cards--size of the borrower's landholding. (The information was available in the individual loan file of each borrower.) It would have been possible to calculate the number of hectares cultivated with the financed crop--since the BNF lends a standard amount per hectare for each type of crop. This would not have given information on the size of the landholding itself, however, and hence on the size of the borrower. A related question was whether the larger borrowers were the medium-sized farmers portrayed in the loan paper, or urban-based entrepreneurs. This information also could not be ascertained from the loan card, though the size of the guarantee gave some indication of the borrower's assets. To obtain at least a small subsample of such information, I asked two extension agents with many years experience in the region to indicate to me the landholding size and occupation of borrowers, which they did for 20 livestock loans (Table 22).

The conditions under which the 018 subloans were to be made are listed below. Some of the conditions were specified in the loan agreement, but they were completely spelled out only in the BNF instructions to its Credit Department:[2]

- loans were to be made to small and medium farmers for working capital for basic grains and for investment capital for livestock;
- individual loans were not to exceed $5,000 for grains and $15,000 for livestock;
- the borrower's assets could be no greater than $5,000;[3]
- the maximum debt ceiling of any individual borrower was $50,000;
- the maximum maturity of loans was 18 months for grains and seven years for livestock;
- hectareage ceilings were not imposed, but the Bank and AID tended to define small farmers as having no more than 10-15 hectares;
- purchase of cattle under the loans was not to exceed 10 animals.[3]

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[2] Sources: AID/H, "Implementation Letter No. 1," 11 June 1969, p. 9; AID/H, "El crédito para el pequeño agricultor en Honduras," August 1972, p. 21; AID/LA/DR, "Honduras - Agriculture Sector Program," 14 June 1974, Annex I, Exhibit A; AID/H, "Agricultural Development (Credit and Extension)," Project Appraisal Report (PAR) for period April 1971 to End of Project, Project No. 522-11-190-036.1, 3 April 1974, p. 4.

[3] I am not sure whether this ceiling was explicitly imposed, or whether it was the Bank's definition of small farmer borrowers.

<u>Portraits of some borrowers</u>. I have reviewed the eight largest loans for which I was able to track down more information, in order to see if they fit within the program's limitations. These loans amount to 25% of the value of the branch's 018 portfolio--31% of the cattle loans and 7% of the crop loans (Table 20).

- A loan for L.20,500 went to a medical doctor with 200 hectares for dairy cattle. It was secured with a guarantee of L.47,000, more than four times the asset ceiling. The loan was made in December 1970 for a seven-year period rather than the average four-year period; only four more of the 230 cattle loans were given such long repayment periods. Though final payment on the loan would not fall due until 1977, not one of the four annual installments due on this loan had been made. It was 100% delinquent. (The loan did not enter the bank's delinquency records, however, because the final payment was not yet due.) The loan accounted for 4% of the 018 portfolio.

- A loan for L.11,000 was made in February 1971 for cultivation of corn on a 320-hectare farm. The borrower was a medical doctor who was also owner of a large hardware establishment in La Playa. The loan was guaranteed with L.51,000, more than five times the asset ceiling. The repayment period was seven years, and the loan was used for equipment purchase. This was the only crop loan for equipment and of a payment period greater than one year. Only the livestock credit had been designated for investment. The loan was still active in August 1975 and was being repaid on time--the only one of the eight largest. The loan accounted for 7% of the 018 grain portfolio and 2% of the total portfolio.

- In March 1972, a loan for L.40,000 was made for dairy cattle to a La Playa merchant who also had a 300-hectare farm--the largest loan in the portfolio. The loan was secured with a L.154,000 guarantee, more than ten times the asset ceiling. The landowner was one of those affected by the expropriation provisions of the agrarian reform decree. The loan was still active in August 1975, but the borrower was 100% delinquent; he had made no payments on the three installments that had already fallen due. Half of the loan--L.20,000--was designated for cattle purchase. Assuming a price of L.200 per head, this gives 100 head of cattle--ten times greater than the 10-animal ceiling.[5] The loan accounted for 7% of the 018 loan portfolio.

The five other largest loans, accounting for 12% of loan value, were:

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[5]An IBRD study in mid-1973 uses a price of L.190 for the purchase of cull cows of 0-5 years age. IBRD, Office of Latin America and the Caribbean, "Appraisal of the Second Livestock Development Project - Honduras," Report No. 196a-HO, 12 September 1973, Annex 10, Table 3.

- L.15,000 for dairy cattle on a 250-hectare property, for purchase of 45 cows (L.9,000)--more than four times the 10-animal ceiling; loan was being repaid on time;

- L.15,000 for dairy cattle; loan fully repaid;

- L.15,000 for dairy cattle; loan fully repaid;

- L.10,000 for breeding cattle; loan fully repaid; and

- L.8,000 for breeding cattle, secured with a L.41,000 guarantee; the loan was being repaid in advance.

The five other largest loans on which acreage information was obtained were (1) L.5,000 for dairy cattle on a 225-hectare property; loan was secured with L.57,600 and was being repaid in advance; (2) L.5,000 for dairy cattle on a 250-hectare property, designating purchase of ten cows (L.2,000); loan was secured with L.11,200 and was 25% delinquent; (3) L.4,000 for dairy cattle on a 150-hectare property; loan was 12% delinquent; (4) L.3,500 for dairy cattle on a 90-hectare property, with a guarantee of L.5,110; loan was 25% delinquent; (5) L.3,000 for dairy cattle on a 50-hectare property; loan specified purchase of 10 cows (L.2,000), and was 25% delinquent. Four of the five loans were delinquent. Together with the eight above, they represent 29% of total loan value. By involving large operators and hectareages, the above loans violated the spirit of the AID project and specific lending regulations.

The results of this random sampling of the "medium-farmer" loans in this branch's 018 portfolio might be shocking if recent studies hadn't forewarned us that small farmer credit programs often turn out to be dominated by larger farmers. It is remarkable, nonetheless, that the "larger farmers" who cornered a significant share of these funds were not even farmers, and that they included truly large as opposed to medium-sized operators. They were found not only in the largest loan category, moreover, but in the second-largest category--US$1,250-$2,500. The relatively small value of these loans, one would think, would have made them uninteresting to larger borrowers. That it did not suggests that loan-size ceilings in themselves are not enough to keep large operators away from small farmer credit.

This type of violation of the spirit and letter of the loan agreement was brought to AID's attention in a limited way in the project's first audit in early 1971. The auditors found loans to persons "not primarily engaged in agriculture and who possessed sufficient resources to obtain financing through conventional commercial sources." They noted instances of loans granted for residential construction and other purposes outside the loan, such as "snack food processing equipment." They recommended that AID inform the BNF of this non-compliance, not reimburse such subloans, and "request procedures to prevent recurrence."[6] These findings were tempered with the observation that the non-compliant loans accounted for "only 10%" of the loans sampled.

The auditors' recommendations apparently had no impact; nine of the 13 loans cited above were made after the audit was released (Table 20). The problem, moreover, seemed more significant than the auditors said. The 13 loans I cite above, after all, accounted for only 3% of the loans sampled--in comparison to the 10% found by the auditors --but amounted to 29% of the value of the portfolio. The 10% found by the auditors, then, must have accounted for a significantly greater share of the portfolio.

Conclusion. The disappointing identity of the "medium farmers" of this 018 sample does not negate the fact that the lower end of the size distribution shows a substantial percentage of the credit going to a substantial percentage of the borrowers. Fifty-nine percent of the crop credit went for loans less than US$500 to 87% of the borrowers. The distribution was less equal for cattle where 44% of the credit went to 86% of the borrowers for loans under US$1,250. (Cattle loans are normally larger than crop loans.) These distributions were more equal than those of total Bank lending (Tables 4a and 5, and Figure 1).

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[6] AID/AAG/LA, "USAID/Honduras, Agricultural Credit and Storage," Audit Report No. 1-522-71-114, 30 March 1971, pp. 5, 14.

Highly unequal distributions of credit usually show the percentage share of loan value increasing as loan size goes up. Hence it is noteworthy that for crop credit, the share of each loan class in total value goes <u>down</u> as loan size goes up--except for the second smallest loan-size class (Table 7a). For livestock credit, howeve the case was the opposite: the share of loan value increases with loan size. This type of credit, in sum, was much less equally distributed than that for crops, as well as being more vulnerable to intrusions by large operators. This problem is explored further in the section on livestock below.

Up to this point, the evidence suggests that it may be necessary to impose a relatively low loan ceiling of US$1,250 on small farmer credit programs in large farmer institutions--in this particular case, to close off the upper two loan categories. This means a ceiling on individual indebtedness that is much lower than the US$50,000 of the 018 funds. Though such a low ceiling might have the disadvantage of blocking out the medium-sized farmers, the higher ceiling of the 018 program seemed to act more as an attraction to large borrowers than to medium ones. The data also presents a partial case for excluding cattle completely from small farmer credit, on the grounds that this type of credit is irremediably vulnerable to misdirection.

The sample data presented above show that a good chunk of the 018 funds went to extremely unqualified large borrowers and a good chunk went to small ones. This distribution may represent a situation characteristic of large-borrower institutions. The institution, that is, may have a hard time giving credit to small farmers without at the same time giving token, but substantial, amounts to some large and influential people. This large-borrower lending may represent not so much deliberate violation of program objectives behind AID's back. It may also mean that it is difficult for such an institution to survive in its particular institutional environment without letting some of the credit go to the wrong people. What occurred in the upper end of the loan-size distribution, in other words, may have been necessary to enable the Bank to do what it was doing at the lower end of the distribution. This point is discussed further after presentation of the delinquency data below.

Anatomy of Delinquency and Default

A look at BNF performance on 018 loan recoveries sheds light on the questions raised above and provides an opportunity to evaluate one of the important quantifiable goals of the loan program. When AID was talking about its first loan with the BNF, the Bank had a delinquency rate of about 25%. Overdue payments were 25% of the value of amounts that had fallen due up to that time.[1] AID said that this delinquency rate was excessively high and required "dramatic improvement" by the Bank.[2]

The 018 loan agreement stipulated as a condition precedent to credit disbursement that BNF delinquency should come down to 10% by December 1969.[3] By the end of 1969, however, delinquency was still

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[1] In 1967, the rate was 27% and in 1966, it was 23%. AID/LA/PR, "Honduras: Agricultural Credit and Storage," 20 June 1968, p. 38. The bank branch at which I collected a sample of 018 loans did not count multi-year active loans as delinquent until the final payments had fallen due. For example, a livestock loan with a 1972-1977 repayment period would not be counted as delinquent in 1975 if the payments due on the annual installments of 1973 and 1974 had not been made. If this is general Bank practice, then it is quite different from AID controller practice of not only including active delinquent loans in delinquency figures, but of counting the whole value of the loan as delinquent, including payments that have not yet fallen due. Table 14b shows how the delinquency rates can vary according to different methods of calculating delinquency; the section on defining delinquency below discusses this issue further.

[2] Ibid.

[3] Sec. 3.02 of 018 Loan Agreement.

21%, and continued at that rate through 1970. The Bank was not making "any coordinated effort to reduce delinquencies."[4] In 1971, delinquency was 20%, and in 1972, 18%. In late 1972, the AID contractor advised the auditors that "there had been no improvement or change in the collection system."[5] Though there was no improvement in this area, and no seeming intentions, the Mission nevertheless started working with the Bank in 1972 on a project proposal for a second large loan--US$10.9 million for agricultural production credit.[6]

In 1972, the Bank created several study groups to investigate problem areas. This resulted in "measures to reduce the portfolio arrears situation."[7] In May 1974, the Bank prepared a study of delinquency on the 018 portfolio, and temporarily hired 20 people to help with loan collections.[8] Other measures included delegation of authority on collection matters to branch offices, the contracting of four lawyers to work exclusively on collection, the authorization

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[4]AID/AAG/LA, "USAID/Honduras, Agricultural Credit and Storage," Audit Report No. 1-522-71-114, 30 March 1971, p. 6.

[5]IGA, "AID Loans to Honduras," 16 February 1973, p. 13.

[6]AID/LA/DR, "Issues Paper - Rural Sector IRR - Honduras," Memo to Deputy U.S. Coordinator, 23 March 1973, p. 2. This was modified substantially, and ended up as the $6.3 million for the BNF of the 1974 Agriculture Sector Loan.

[7]AID/LA/DR, "Honduras - Agriculture Sector Program," 14 June 1974, p. 143.

[8]AID/AAG,LA, "USAID/Honduras, Agricultural Development," Audit Report No. 1-522-75-3, 19 July 1974.

of field personnel to make some collections, etc.[9] Delinquency continued high in 1973 and 1974, and was still 21% in late 1974.[10] In June of that year, AID authorized the Agriculture Sector Loan, which would channel $6.3 million in agricultural credit through the Bank.[10a]

As a result of the persistence of delinquency, AID adopted a new delinquency-reducing schedule for the Bank in 1973. It projected a ceiling of 18.4% delinquency for 1974 and 10% for 1977--eight years later than the original 1969 target. The schedule was taken from the conditions of a new IDB loan to the BNF.[11] The Agriculture Sector Loan paper of June 1974 referred to the Bank's delinquency problems and to the above-cited measures taken by the Bank to improve collection.[12] But no condition with respect to delinquency was made in the Loan Authorization.[13]

When questioned by the auditors in 1973 about the unexpectedly and persistently high rate of BNF delinquency, AID pointed to two factors. "Two successive years of severe drought [1971-1972] has,

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[9] AID/H, "IGA Report - Honduras," Airgram TOAID A-49, 4 April 1973, p. 9.

[10] AID/LA/DR, "Honduras: Hurricane Rural Reconstruction," Capital Assistance Paper, DAEC/P-75/21, 13 December 1974, p. 43.

[10a] At this writing, the BNF's delinquency problem has not abated. The Bank reported a delinquency rate of 28% in August 1976. "Morosos adeudan al BNF 35 millones de lempiras," El Tiempo, 31 August 1976.

[11] AID/H, "IGA Report - Honduras," 4 April 1973, pp. 8-9.

[12] AID/LA/DR, "Honduras - Agriculture Sector Program," 14 June 1974, p. 143.

[13] AID/LA/DR, "Draft Loan Authorization for Loan No. 522-T-025," Annex III, Exhibit D of "Honduras - Agriculture Sector Program," 14 June 1974.

in many cases," the Mission said, "precluded the possibility of loan repayment." In addition, it was said, the loan program had "concentrated on reaching new small-farmer clients during the last two years." This had introduced a "high risk inherent in increasing small farmer participation in institutional credit."[14] The drought and the small farmers, in sum, were understood to be major causes for continuation of the delinquency problem at the Bank.

AID's own records on BNF delinquency and my sample of 018 loans give an interpretation of the Bank's persistent delinquency problem that is quite different from the ones above. The story needs to be untangled--not for the purposes of setting the record straight, but because the AID explanations are inaccurate descriptions of reality. In that these descriptions are now feeding into the design of current AID programs to assist small farmers and development banks, it is important that they be corrected.

Delinquency and the drought. With respect to the drought as an explanation of delinquency, the Bank's delinquency rate was still quite high even before the onset of the drought in 1971. It was 18% in 1968, 21% in 1969 and 21% again in 1970--one year after the

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[14] AID/H, "IGA Report - Honduras," 4 April 1973, pp. 8-9. More detailed evaluations also pointed to faultiness in the Bank's collection procedures. E.g., AID/H, "Estudio de evaluación del programa de crédito supervisado," August 1972, p. 33.

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10% deadline had passed and one year before the drought. The auditors found no effort on the part of the Bank to reduce delinquencies by early 1971, right before the drought and one-and-a-half years after the loan was authorized. After the drought, moreover, delinquency continued at the same rate, running at 21% in late 1974.

With this kind of constancy, one is surprised not that the delinquency rate was high, but that it did not even vary significantly when the drought came around. This leads one to believe that the effects of the drought on delinquency were swamped by other factors. These other factors, to be discussed below, must have been constantly present in both drought and non-drought years. Finally, the delinquency rate of another small farmer credit program affected by the drought was significantly lower than that of the Bank. The credit union federation's delinquency rate on 018 subloans was also said to be higher because of the drought. It was 7%, however, in comparison to the 18% of the Bank.[15]

In order to test AID's drought explanation of the BNF delinquency, I separated out the drought-year repayments on grains (1971-1972) from the good-year repayments (1973) in the 018 sample

[15] This rate refers only to AID-018 subloans. AID/AAG/LA, "USAID/Honduras, Agricultural Development," Audit Report No. 1-522-75-3, 19 July 1974, p. 7.

described above.[16] Surprisingly, the results do not give much support to the drought explanation, though they are not totally devoid of the drought's impact. As can be seen from Table 18, delinquency in the drought years was somewhat higher than in the good year--28% vs. 22%--if one excludes delinquent loans that were ultimately paid. But if one includes these late-paid loans, which accounted for more than half the value of the grains portfolio, delinquency in the bad years was slightly <u>less</u> than in the good--79% vs. 82%.

One would have expected that small borrowers would have been at least as affected by a drought as the large borrowers. But the trend of increased delinquency with increased loan size, described in the next section, has the exact same configuration in the drought years as in the good year (Table 19). Indeed, the larger borrowers contribute more to delinquency in the bad years than they do in the good. The share of the smaller ones in delinquency, in relation to their share of loan value, is less in the bad years

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[16] I have not included cattle loans in this breakdown because of the longer time period for cattle repayments, and the more indirect way in which drought shows up in cattleowner earnings. One would have expected a large amount of late-paid installments as one sign of the drought. But this category accounted for only 9% of the cattle loans and 4% of their value (Table 10). The high rate of advance repayment (65%), however, may be an indication of premature sale and slaughter in order to avoid the effects of drought on the herd. These considerations are discussed further in the livestock section below.

than in the good. Moreover, the changes in the percentage of delinquent borrowers in the small classes from drought year to good year were not consistent or significant.

Another way to unearth the impact of the drought on delinquency is to compare degree of late payment in good and bad years. One would expect late payment to be more prevalent in the drought years. But this is not the case. Indeed, late payment is less in the bad years than in the good--50% vs. 60%.

There are ways of reconciling this perplexing absence of the drought in the delinquency data--without having to throw out the data or the drought explanation.[17] In general, the delinquency of the 018 program does not seem very attributable to the drought. As discussed in the next section, it seems more a result of factors internal to the Bank, involving delinquency of borrowers to which the Bank was lending before AID.

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[17]We know for sure, after all, that the drought occurred and that it affected agriculture. The effects of the drought on a small farmer's finances would be likely to last longer than the effects on the soil itself. The good-year data, then, are probably still reflecting the drought, and thus are not markedly different from the previous bad years. Second, it is clear from Table 18 that there was an abrupt drop in the share of small loans in 018 credit after the drought--the smallest loan-size class fell from 57% of the loans and 30% of their value to 28% of the loans and 13% of their value. This was reflected in an increase in the share of the three largest loan-size classes--a doubling of their share of loans and a 26% increase in their share of loan value. This meant that the good-year data was more influenced by the delinquency behavior of the larger classes than the bad-year data. Thus the good-year data, instead of showing the effects of the change from bad year to good, was probably more a result of a shift in weight from lower-class delinquency to upper-class delinquency.

Small farmer vs. large farmer delinquents. With respect to the contribution of small farmer borrowers to delinquency, the sample referred to above is revealing. The value of delinquent or defaulted loans accounted for 21% of the sampled 018 portfolio--measuring delinquency as the amount of payments overdue divided by the amount of payments fallen due (Table 14b). This is a more liberal measure than that recommended by AID controllers, who count delinquent loans that are still active as totally delinquent, including the future payments that have not yet fallen due. Since 24% of the value of this portfolio was still active in August 1975, the AID measure gives a higher delinquency--25% instead of 21% (Table 14b).[18]

The delinquency of the grain portfolio is 29%, and that of cattle, 18%. Cattle delinquency, however, is much closer to that of grains when the AID measure is used (25%). The latter measure may turn out to be more accurate because delinquency of the active cattle loans is several times higher than that of the inactive cattle loans--64% according to my measure and 67%

[18] I have used the more "charitable" measure of delinquency because of a few large active and delinquent loans that may exaggerate the share in delinquency of the two largest loan-size classes. I also suspect, because of the practice of the La Ceiba branch, that the AID measures of BNF delinquency do not include active delinquent loans, let alone the part that has not yet fallen due on delinquent loans. To prevent confusion and allow comparability, I have calculated delinquency percentages in all the various possible ways (Table 14b).

according to the AID measure (Table 14b). Thus when all the cattle loans have fallen due, the delinquency of the cattle portfolio will probably be closer to the AID 25% measure than to my 18% measure.

The three most surprising features of the delinquency of this bank branch are summarized here:

(1) Both in grains and cattle, the greater the size of the loan category, the greater its relative contribution to delinquency (Tables 15 and 16). Larger borrowers, in short, contributed more than their share to delinquency than did smaller borrowers. The tendency was more consistent and more marked in cattle than in grain loans. Thus the unexpected persistency of the BNF's high delinquency rates may not have been, as was said, a result of new smaller-size lending by the Bank to new and smaller clients. The delinquency seems to have instead reflected an ongoing phenomenon involving types of lending and borrowers to which the Bank was already accustomed.

(2) Of the grain loans that were fully repaid, more than three-quarters of the value (76%) and number (78%) were repaid with some delay (Table 9). The delay was usually of no more than 12 months and almost half the value of these late-paid loans was repaid with up to only three months' delay (Table 21). This means that a mid-stream delinquency reading of the grains portfolio--counting all the late-paid loans as delinquent--would have given a delinquency rate of 83% (Table 14b). It also means that consideration should be

given to lengthening the periods for such short-term crop loans.

(3) In the cattle portfolio, almost two-thirds (64%) the value of amounts due was repaid <u>in advance</u> (Table 10). In a majority of cases, the period of anticipation of final payment was considerably greater than a few months (Table 24). This advance repayment is surprising, given the concessional interest rate of 9% and the scarcity of such medium term credit. It may be that interest rates were not as subsidized as was thought, that cattle investments paid off unusually quickly, or that the credit was invested in other activities outside of livestock. These possibilities are discussed further in the following section.

The AID/BNF evaluations, citing drought and the unfamiliarity of small farmers with the Bank, lead one to expect greater delinquency in the smaller loans. Yet the most striking thing about the repayment data is that no matter how you measure delinquency, the pattern is always the same: from the small loan-size classes to the large, delinquency shares show a consistent increase--except for a decrease when moving from the smallest class in grains to the second-smallest, as discussed below.[19] This pattern emerges whether one is measuring the value of the delinquent loans, the delinquent

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[19] My delinquency ratio weights the share of each loan-size class in delinquency by its share in total loans. It is the ratio of the percentage share of a class in delinquency to its percentage share of loans.

value of the loan, or the number of delinquent loans (Tables 15 and 16).

It is surprising that a small sample would yield such a consistent pattern, and that the same pattern would show up in loans of a completely different nature. In grains, the trend is not as marked as it is in livestock, though it is definitely there. From the second loan-size class to the fourth, delinquency shares more than double. The smallest, first loan-size class has a delinquency share greater than its share of loans and loan value. But this share is still less than that of the two largest loan-size classes. In cattle loans, the same trend appears in a much more marked fashion. The increase in delinquency ratios from small to large loan-size classes is more than fivefold (Table 16). Unlike grains, moreover, the smallest class is not more delinquent than the second, but is the best repayer of them all. There is an uninterrupted increase of delinquency shares, that is, from the smallest to the largest class in the cattle loans. The data support the hypothesis, in sum, that larger borrowers are more delinquent than smaller ones.

This leaves for explanation the behavior of the second smallest class in grains. It, and not the smallest class, is the best behaved on repayment. It would be useful to know from other data, taken from different banks and different weather conditions, if the problem of the smallest class has to do with the small relative or absolute size of the loans (US$50-$250). It could mean, for example, that the better repayers are known beforehand to bank people, and are channeled from the smallest into the second class size at the time that the bank determines the loan amount. Answering these questions could help AID determine whether and where to set floors on individual credit amounts in its programs. In any case it should be remembered that the proportionate delinquency of the smallest class, though larger than the second class, is still less than that of the largest classes.

Another interesting aspect of these delinquency ratios is that on more than half of the delinquent grain loans and their value, no payment on the principal was ever made (Table 10).[20] The rest were partially delinquent. This was true for the value of delinquent cattle loans as well. The number of non-payers, however, was concentrated among 25% of the delinquent borrowers, representing more than half the value of the delinquent loan portfolio. Non-payment, or default, was more concentrated among large borrowers in livestock than it was in grains.

More than one-third of the value of the never-paid grain loans is accounted for by two borrowers in the highest loan class

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[20] I do not know if this is also true of interest payments, since have no data on these.

in which there were delinquencies (Table 9). They represent 19% of the value of all delinquent grain loans. Collection on these two loans only could have reduced the value of unpaid loans in the whole grains portfolio by 19%. The contrast is even more striking with cattle (Table 8). Two borrowers in the largest loan-size class account for 89% of the value of loans on which payments have never been made, and 48% of the value of all delinquent loans in the cattle portfolio (counting only amounts due on active loans) (Table 12).[21]

The largest of these two delinquent cattle loans was secured with a guarantee almost four times the amount of the loan, and the other with a guarantee more than twice the value of the loan--as was the case with most cattle loans. Thus the collection on or calling of these loans would seem to involve a relatively easy and legally straightforward effort on the bank's part. The "expected benefit-cost ratio" of collection on these loans, in other words, would be extremely high compared to that involving the 27 non-payers in grains and the three non-payers in cattle

[21] These two loans are still active, so that they could be called. Payments are due in annual installments; the last payment on one is due in 1977 and on the other in 1979. I have calculated their delinquency and loan value on the basis of amounts due, rather than total loan value. Since their repayment behavior thus far is so bad, they are likely to default completely, which would make their percentage contribution to delinquency much greater.

at the lower end of the loan-size spectrum. This has important implications for the type of collection program that is built into the design of AID technical assistance, as discussed below.

The above measures of delinquency relate to the value of delinquent loans and not to that of the overdue payments themselves. This latter measure gives a better idea of the amount of capital the lending institution is actually losing. The value of these overdue payments is spread fairly evenly across the four loan-size classes in grains; in cattle, values increase with loan size (Table 12). The contribution of each class to the bank's losses in grain delinquency, then, is about the same--even though the weighted share increases with class size. Thus for the bank to recuperate the upper half of its overdue payments, it would have to concentrate collection efforts on nine borrowers. To collect the lower half, it would have to deal with 50 borrowers, more than five times as many. In cattle, the disproportion is much greater: the bank could recuperate 64% of overdue payments from only two borrowers in the largest class. The remaining 36% would involve 22 delinquent borrowers in the other four classes.

It can be seen from the various measures above that the tendency for delinquency to increase as loan-size class goes up is not as marked in grains as it is in cattle. In cattle, that is, if loans in the two largest categories had been prohibited, the value of delinquent loans would have been half what it was and the actual loss to the bank would have fallen by more than half (Table 17). In grains, the same procedure would cause only a slight reduction in delinquency. The slightness of this decrease results from the weight of the smallest class in grain delinquency. In both grains and livestock, the successive elimination from the portfolio of loans by size, starting with the largest, would result in a successive decrease in its delinquency--though the decrease for cattle is much more significant than the one for grains.

<u>What happens to delinquency upon introducing small farmers into an established bank</u>. These data are of considerable value in re-evaluating the delinquency performance of the BNF. Delinquency was judged high in the 018 program, as noted above. It was attributed by AID to the drought, and to the newness of the Bank and the small farmer to each other. But the delinquency of the La Ceiba sample shows a tendency to increase with the larger loan categories, which are those in which the BNF does a good deal of its non-AID lending (Table 4a). This means that the delinquency of the 018 program may actually have been <u>lower</u> than that of overall BNF lending. Using the BNF measure of delinquency, which excludes active loans, the La Playa 018 delinquency was 14% in August 1975 (Table 14b). This was seven percentage points <u>lower</u>

than the overall delinquency rate of 21% in 1974. Thus the delinquency on 018 credit and in the Bank in general can hardly be seen as the result of introducing small farmers into the Bank. It is probably more the result of the Bank's performance on delinquency <u>previous</u> to the AID loan, and in its portfolios outside the AID loan.[22] The introduction of small farmers to the Bank, then, does not explain the persistence of its delinquency.

Some of AID's own observations on the Bank's delinquency provide indirect evidence that the BNF's small farmer borrowers were, if anything, less delinquent than the larger ones. In a 1971 study of overall Bank delinquency by type of crop, the lowest level of delinquency was found in the crop category including basic grains--23%. Grain credit is the category in which small farmers are most prominent. Delinquency for the larger farmer crops was higher: 53% for tobacco, 29% for cotton and the same

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[22] A 1972 evaluation of the Bank by AID made a similar observation. "The process of recuperation of 018 credits follows the same pattern as that of overall Bank credit. There has been no resort to new strategies or methods of collection, different from those traditionally used by the Bank." AID/H, "Estudio de evaluación del programa de crédito supervisado," August 1972, p. 27. Translation mine.

My comparison between overall delinquency and that of 018 in La Playa should not be taken as final. When all the 018 active loans are cancelled, the 018 delinquency may turn out to be the same, or even more, than overall Bank delinquency. This is because the active livestock loans, as mentioned above, are showing a higher delinquency than the average for the inactive portfolio.

for coffee.[23] This crop configuration of delinquency was apparently not new, for similar findings were pointed out four years earlier in the AID-sponsored evaluation of the BNF. There it was found that cotton and tobacco "have caused BNF to sustain its largest losses and largest delinquent accounts to date."[24] Far from explaining delinquency, then, the introduction of small farmers to the Bank could just as well explain the slight decrease in overall Bank delinquency over the years of AID lending.

Given the Bank's past record on delinquency, the introduction of small farmers may ultimately lead to an improvement in repayment that results from this new class of borrower and not from any change in Bank behavior. That is, it may have been the very unfamiliarity between the new borrower and the Bank that accounted for the better repayment performance of the smallest borrowers. The formal rules of collection may have been much more easily applied to this new group, who had no past tie to the Bank and no class kinship with it. The delinquency of the lower size classes, of course, is still not low for a credit program. Even with the excision of the larger borrowers, the program cannot be left to stand as a success. It is certainly somewhat better than was pictured, however, and for different reasons.

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[23] AID/LA/DR, "Honduras - Agriculture Sector Program," 14 June 1974, p. 143.

[24] AID/H, "Evaluation of Banco Nacional de Fomento," 22 August 1967, p. 22.

The good and late payers. The most striking thing about the grain portfolio is that 56% of the loans and 54% of the amounts due were fully paid, but with some delay. The rest of the portfolio showed that (1) on 16% of the value and number of the loan amounts due, no payment had ever been made; (2) 12% of the value and number were partially delinquent; (3) another 12% of the amount due had been paid on time; and (4) 5% was paid in advance (Table 10). Thus a delinquency reading taken in late 1973, by which time most of the grain loans had fallen due, would have been close to 83%![25]

A considerable chunk of the late-paid loans were paid off with only three months delay (41%). Another 47% were paid off within a year (Table 21). Only the remaining 13% dragged on for more than a year--up to 29 months--though they were ultimately paid. The importance of these late-paid loans in the delinquency picture of grains loans, and the relatively short period of their delinquency, suggests that loan repayment terms may have been too short. Most of them were set at six months to one year, even though the loan agreement allowed up to 18 months for repayment.

[25]This is much higher than the delinquency reported for that time by the AID auditors--18% for late 1973 and early 1974. (AID/AAG/LA, "USAID/Honduras, Agricultural Development," Audit Report No. 1-522-7[illegible] 19 July 1974, p. 7.) I do not understand the reason for such a large discrepancy. The delinquency of the La Playa branch was, in general, no greater than the average for the BNF system, as noted above. It may be that the Bank's delinquent loans take some months to get into the data. More than half the value of the grains portfolio was paid late, and somewhat less than half this late-paid value was paid within three months. This could explain a good part of the discrepancy.

The shorter period is common banking practice, set to coincide with the expected time of harvest.

Because small farmers live at the margin of subsistence, a repayment period longer by about six months may be more suited to them than the traditional repayment period that is tied to the rhythms of the harvest--i.e., from 12 to 18 months instead of six to 12 months. The longer cycle may not seem to make sense from a production point of view, since it extends repayment into the next planting season. It also does not make sense to a bank, which likes to catch the small farmer at the moment of harvest, before he sells his grain or puts it away for his family's consumption. This is particularly a problem with crops that are an important part of home consumption, like corn. Home consumption puts into greater dispute the question of how much grain the small farmer actually has for debt repayment right after the harvest. "You ate the grain you owed us," is not an uncommon complaint of bank inspectors to late-paying small farmers. Or, when the borrower cannot repay right away, the bank will accuse him of laying away more than is necessary for home consumption. Some peasant groups--in order to avoid this conflict, in which they are usually on the losing side--actually plant a separate plot "for the bank."

From a bank's point of view, the moment of greatest bargaining power for getting debts repaid is right at harvest time. And this is how the time period for repayment is determined for most short-term crop loans to small farmers. According to the data, however, the small farmers' production cycle seems to be more compatible with a longer repayment period, though it is not clear why. We do know that the reasons for the shorter repayment period have to do only with the agricultural cycle and maximization of bank bargaining power. They do not necessarily have to do with the economic cycle of the farmer. Finally, the shorter bank-determined period is based to a certain extent on an assumption of bad faith by the farmer-borrower. A longer period would have to be based on an assumption of good faith. The trends in the delinquency data suggest that the assumption of good faith for the smaller loans may not be that unreasonable.

One might reconcile the bank's concerns with the small farmer's optimal repayment rhythm by simply allowing the bank to engage in informal, last-minute postponement of late-paid loans--without requiring an actual refinancing operation. This would accommodate both the bank's prerogative to fix loan periods and the small farmer's different repayment pace. One would also have to refrain from judging the bank as delinquent on these to-be-paid-late loans, and not insist that considerable collection effort be spent on them. Since it is difficult to distinguish in advance the late-payers from the never-payers, this would mean not pursuing delinquent accounts for almost a year, which may be unfeasible.

But the alternative is to pursue all delinquent accounts from the moment they turn delinquent. This can be unnecessarily costly, since a good part of the delinquent portfolio will repay of its own accord--56% in my grains sample.

The high percentage of late-paid accounts in the grain portfolio might be considered a result of the drought, rather than a constant phenomenon. In the data analyzed above, that is, the late repayment of the post-drought year may be simply displaying the continued financial effects of the two preceding drought years. If this is the case, it shows that the climatic disaster has a more prolonged impact on small farmer finances than it does on the land. Droughts and other such agricultural disasters, moreover, are not the unusual occurrences that they have been portrayed. If the late payment of my data is a result of the drought, then, it still should be treated as closer to a normal than an abnormal phenomenon. This is the subject of the following section.

Disasters, and the assumption that they will not occur. In the above section on delinquency and drought, it was seen that AID attributed the BNF's high delinquency rate during the 018 period to the 1971-1972 droughts. I argued that the actual influence of the drought on the delinquency problem was much less than claimed. This kind of claim and this kind of climatological event are not unusual. The section on FECOAGROH shows that many of that program's problems were blamed on the same droughts. Even the high delinquency of the BNF <u>before</u> AID came on the scene was attributed to drought. The years 1966 and 1967, AID and the BNF said in the justification for the first BNF loan, had seen droughts that made the delinquency rate "much larger than the normal"--25%.[26] Putting together the droughts of 1966-1967 and 1971-1972 with Hurricane Francelia of 1969, Hurricane Fifi of 1974, and drought again in 1975, one has seven bad agricultural years over a ten-year period.

I question the validity of explicitly assuming, as AID does in its agricultural projects, that the agricultural year will be a normal one--no floods, no droughts. If the last ten Honduran years have been strewn with such disasters, and if AID believes these events have undermined its programs, then it does not make sense to base program designs on the assumption that they will not occur. After all, the probability of any particular agricultural year being a bad one in Honduras is now 0.7--if one bases one's estimate on the last ten years. Yet still in 1975, one of the four "assumptions for achieving goal targets" of an AID project for farmer groups was that "climatic conditions [will be] favorable."[27] Similarly, on the heels of the 1971-1972 droughts,

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[26] AID/LA/DR, "Honduras: Agricultural Credit and Storage," 20 June 1968, p. 38.

[27] AID/H, "Agricultural Cooperatives (Small Farmer Organizations Development)," Noncapital Project Paper (PROP), 30 January 1975, p. 10.

an AID project for agricultural coops was designed on the assumption of a "return to normal climatic conditions."

The assumption of a normal agricultural year is not peculiar to the Honduran Mission's projects. It has become a standard fixture of AID's agricultural project designs. Of course, the last ten Honduran years may represent an unusual concentration of adverse climatic events. But I am certain that if one studied the agricultural data of Latin American countries over a sufficiently large time span, the probability of an abnormal year falling within the period of any particular AID project would be quite high. At the least, it would be high enough to never think of assuming that such a year would not occur during an AID project's execution. base my certainty on the number of small farmer credit and cooperative programs in Latin America whose problems or failures I have seen attributed to "abnormal" climatological events. The BNF delinquency rate and the failure of FECOAGROH are only two examples out of many.

The effects of drought and flood on the small farmer's finances extend further through time than the climatic phenomenon itself. If one looks at disasters in this way, the probability of an abnormal year goes up even further. When one listens to the histories of peasants and their groups, it is

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[28] AID/H, "Core Services - Rural Development," Noncapital Project Paper (PROP), Project No. 522-11-190-036.6, 14 December 1973, p. 10.

remarkable how laced they are with the effects of disaster over a long number of years, how the productive destiny of the family is shaped by various disasters and the responses to them. To peasants, disaster is normal, not abnormal. Perhaps it is the cultural conditioning of those who work in foreign assistance institutions--outside agriculture and outside the lower classes--that has made us assume such normal events to be abnormal.

There are other "disasters" for this type of producer which, though not of a climatological nature, have the same capricious and devastating effect on his productive life and his ability to repay loans. The crop was eaten by pests, the price of inputs went up too high for them to be used, the seed was bad, the fertilizer didn't arrive on time, the middleman wouldn't buy, the price offered for the crop was too low. These are disasters for small farmers and not for larger ones because the small farmer, by definition, does not have the economic power to get around them.

AID's small farmer credit programs usually praise the advantages of weaning away the farmer from "high-priced" non-institutional credit intermediaries. Or, the advantages of using a "modern input" like credit are cited for those who have never used it before. High-priced credit, or not using credit, is looked at by foreign assistance as costly and un-modern. Yet these modes of financing involve certain ways of coping with disaster. They involve certain expectations about how to make do--either by deferral of credit repayment to the high-priced creditor, or no credit in the first place, with problems centering on how to get enough to eat after the disaster. The intended clients of the AID program, then, may not be familiar with the collection behavior of a bank after one of their disasters, or with how to get around it; they may not know how to distinguish formal regulations of the bank from informal practice.

The AID credit program paints a rosy picture of what credit can do. The peasant receives no admonitions about what will happen after a disaster--since it has been assumed away. Ignored by the reformers of un-modern ways is the disaster protection inherent in the "high price" of non-institutional credit, or in the other traditional ways of coping. The small farmer credit program, in short, can bring producers on the margin of subsistence into an environment that makes them more vulnerable to disaster than they were before; it may leave them abandoned after a disaster occurs. A program intended to improve the small farmer's position by converting him to more modern methods should not take away his intricate protection against risks. It should try to be at least as insured against risk as the peasant's traditional manner of coping.

Lending institutions often deal with small farmers after their disasters in a way that minimizes the loss to the institution --a reasonable form of behavior for a bank--rather than in a way that will maximize the borrower's potential for recovery. The tractor story told below is an excellent example. AID, in turn, gets itself deeply involved with the complex problems of the lending institution. Thus the program almost inadvertently turns into one that is more concerned with the financial soundness of the lending institution than with that of the small farmer borrower. AID's concern about collection rigor gives the banking institution reason to act <u>more</u> against the interests of the small farmer than it might normally do. A passage about BNF delinquency in the Hurricane Reconstruction loan paper illustrates this:

> "An effective way to ensure the liquidation of production credits would be to require that farmers sell their crop to the BNF and liquidate the debt from the proceeds of the sale. This procedure would also provide the BNF with leverage in recouping prior delinquencies from farmers and of course would provide the BNF with a definite and measurable inventory of grain for its stabilization program. A condition to disbursement of the credit portion of the proposed loan will be that the BNF develop a standard production credit agreement that includes a provision for purchasing collateralized crop production at a pre-determined price or based on a prescribed price index, and a provision for the liquidation of delinquent credits from prior production loans."[29]

This proposal makes AID and the Bank sound somewhat like the evil intermediary from whom small farmer credit programs are supposed to provide an escape. What would happen if there were a drought?

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[29] AID/LA/DR, "Honduras: Hurricane Rural Reconstruction," 13 December 1974, p. 41.

In the operation of an AID credit program, then, the small farmer as a producing enterprise gets neglected by AID for the lending institution. This happens even though the lending institution in AID projects is meant to be an instrument for furthering the development of small farmers, and not an end in itself. It happens because lending-institution solvency and small-farmer solvency are not always compatible objectives.

Approaches to this problem should be developed which relieve the lending institution from additional AID pressure to pursue its disaster-stricken small creditors. At the same time, these approaches should increase the probability of eventual repayment by the small borrowers--i.e., of their eventual rehabilitation as producers. One possible approach is to write contingency plans into credit regulations. If a certain percent of the crop is affected by disaster, for example, then credit repayments would be automatically extended a certain number of months. A contingency fund might be made a part of the AID loans; it would allow for interest payments to the bank during this period, or some form of compensation that would keep its loan capital in shape. Whatever the specific arrangement, AID small farmer programs should insure that becoming modern will not be more perilous for small farmers than staying the way they are--at least during the period of initial change.

Groups of small farmers may be more vulnerable than individuals to post-disaster unsympathetic behavior by lending institutions. The bank has much more to lose from a large defaulted loan to a group of small farmers than from a small loan to a small farmer. From the same investment in collection efforts, it has many times more to gain from the group than from the individual. The bank, then, is likely to be less compassionate with a small farmer group than with a single small farmer. AID's new sector loan to the BNF emphasizes small farmer groups, in contrast to the individual small farmer emphasis of the 018 loans. In programs such as these, where credit is channeled to groups rather than individuals, it may be even more important that AID incorporate disaster contingencies into its program design.

Disaster, in sum, is one of the central problems of a small farmer credit program. To assume it away provides a guaranteed but useless explanation of failure when the "disaster" occurs. More important, one gives up the opportunity to try and avoid failure with a program design that faces up to such problems. It is incumbent upon AID to include disaster in its program design, not only to protect itself and its lending institution, but to protect the small farmer. Of the three parties the latter can least afford this kind of loss.

<u>The AID way of determining delinquency</u>. The lowering of delinquency is an important objective of most AID small farmer credit programs, as was the case with the BNF. To work toward this objective, it is necessary to select a program strategy that fits the delinquency characteristics of any particular portfolio. AID, its auditors and its contractors, rely only on an aggregate percentage to measure delinquency. This allows little possibility of designing a collection program to fit the case at hand. With such a rough measure to go by, it is not surprising that the BNF made little progress in delinquency reduction and that AID attributed the problem to factors that turned out to be of secondary importance or just plain non-existent. Only a more detailed look at delinquency would have shown that a good part of it was within control of the program and could have been influenced by program design.

The gross delinquency percentage that AID uses is the value of overdue payments as a percent of total payments due, or the value of overdue loans as a percent of total loans.[30] This datum does not allow one to gauge the seriousness of the delinquency, the nature of its distribution over types of borrowers, or its changes through time. A BNF 18% delinquency, for example, could mean that 9% of the value of delinquent loans was overdue, or 90%. Surely the problem would be judged much less serious, and the approach to it quite distinct, if only 9% of the value of delinquent loans was overdue and 91% had been repaid--in comparison to a case where 90% of the value was overdue and only 10% had been repaid. In my 018 sample, the AID measure gives 25% delinquency. That is, 25% of the total value of loans was delinquent. But 78% of the value of these delinquent loans was still outstanding; only 22%, that is, had been repaid (Table 12).

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[30]The BNF delinquency data is presented in AID documentation as overdue amounts in relation to amounts due. The bank branch where I collected data, however, did not count active loans on which payments were overdue as delinquent, even though they qualify for inclusion in this type of measure. Loans were not counted as delinquent, that is, until the final payment had fallen due. As mentioned above, multi-year loans were an important part of the 018 portfolio (livestock) and active loans tended to be more delinquent than inactive ones in my sample of the 018 livestock loans. The Bank's method of calculating delinquency, excluding active loans, would therefore understate the gross delinquency percentage. The BNF delinquency measure in AID documents, then, actually may be the value of inactive delinquent loans as a percent of total inactive loans--rather than the value of overdue amounts as a percent of total amounts due. Table 14b shows how large the differences can be between these two percentages--14% for overdue loans in my sample (inactive) vs. 21% for overdue amounts.

The gross delinquency percentage presents other problems. If the BNF had a gross delinquency rate of 18% during the whole period of the AID loan, this could represent (1) no progress, (2) considerable progress, or (3) a worsening. The latter would be the case, for example, if on the 18% value of delinquent loans the unpaid amount had increased from, say, 20% to 80%. Progress would have occurred if the movement had been in the opposite direction. In my sample, the value of delinquent loans was 28% of the value of loans granted in the drought years 1971 and 1972; 24% of the value of those delinquent loans was never paid. In the following good year, the value of delinquent loans fell to 22%; only 18% of the value of those delinquent loans remained unpaid. This was a somewhat greater improvement than that indicated by the reduction in the gross delinquency percentage from 28% to 22%.

The gross delinquency percentage has all the drawbacks of any average measure. It does not convey information about the distribution of delinquency over different types of borrowers and different types of activities. Had a simple breakdown of the 018 delinquency portfolio been made by type of activity financed (livestock or crops) and by type of loan, then the principal reasons for the delinquency of the BNF could never have been attributed to drought and the introduction of small farmers into its program. If the value of delinquency is concentrated in the larger loan size classes, moreover, the problem may be less treatable with standard collection procedures than it would be if it were more equally spaced, or even concentrated in the smaller classes. When delinquency of the larger classes is out of proportion to their share of loans, as was the case in the 018 sample, it is likely to be the kind of delinquency that results from the political power of the borrower and his membership in the same elite that administers the bank. AID technical assistance for improving standard collection procedures will not get very far with this kind of delinquency.

The gross delinquency percentage provides the lending institution with no information as to whether there are certain categories which account for significant shares of the loan capital it is losing through delinquency. This can be determined by comparing the distribution of total overdue amounts (not AID's value of delinquent loans) over loan sizes and numbers of borrowers (Table 12). The above section on delinquency of small borrowers vs. large, for example, presented some calculations on how much could be recouped by concentrating collection efforts on a few borrowers. The data showed that these loans were large, that the percentages overdue were sometimes 100%, and that the loans had been secured with attachable assets many times the value of the loan. Similarly, it was seen that the smallest loan-size class in grains was causing considerable losses. If this finding were known, it might be decided upon further investigation to eliminate such small loans. The aggregate delinquency percentage, however, obscures all this.

In a developing country environment, many of the borrowers are poor, both borrower and lending institution are vulnerable to adverse natural events, and some borrowers are of the same elite group as the lender. In this kind of institutional setting, certain amounts and kinds of delinquency are likely to be constants rather than reflections of the institution's collection efforts. One needs to account for these constants, not by allowing a little slack in the gross delinquency percentage, but by distinguishing those aspects of delinquency that are within control from those that are not. In this process, one finds out where the costs of improved collection are least, in comparison to the expected value of increased collections; one makes some kind of assessment of the kinds of delinquency that are beyond the program's control. The gross delinquency percentage does not help with any of these program needs.

Why has the gross delinquency percentage been used by AID in the monitoring of its agricultural credit programs in Latin America? The measure is used because it is standard accounting practice in U.S. credit institutions, according to AID controllers. The AID measure was actually objected to for some time by the Coop Bank of Ecuador, when it was disbursing AID credits. The Bank objected to the fact that for multi-year active loans, the measure includes in the delinquent value of delinquent loans all future payments that have not yet fallen due. Implicit in this practice is the assumption that if the borrower is delinquent on one payment, he is likely to be delinquent on all future payments. The Coop Bank, however, wanted to include only those payments that were overdue on delinquent active loans--and not payments still to fall due. The point was not academic, since it made for 25 percentage points of difference in the Bank's delinquency--5% vs. 30%. The Mission felt that the Bank's method was too soft. The Bank, in turn, considered the Mission too hard. The Bank ended up including both measures in its reports to AID.

What I am saying is that both measures are not relevant to the performance standards and problems involved in this kind of program. The AID measure is just as soft, when related to the problems posed above, as is the Coop Bank's. Though AID's delinquency measure may have been portrayed as a rigorous one, the above discussion shows that other measures can be much harder and more helpful taskmasters. It is difficult to understand how

AID and its contractors could have given technical assistance to credit institutions without knowing what delinquency looked like. More serious, the neglect of the delinquency configuration has resulted in the widespread acceptance in AID of inaccurate explanations for why delinquency occurs in small farmer credit programs. These explanations have come to have a life of their own, implicitly determining program designs and policy decisions. The Agency should engage in simple analyses of the delinquency of its small farmer credit programs so as to be able to frame such programs out of a more informed context.

Cattle Credit in a Small Farmer Program

Both the livestock and grain loans of the sample described above showed a strikingly similar tendency for delinquency to increase with loan size--despite the fact that livestock loans were long-term and for investment and grain loans were short-term and for a completely different type of production activity. The livestock loans, however, showed more marked signs of large-borrower "drift"--that is, concentration of delinquency and loan values among large operators (Table 7a). Of the 30 largest loans accounting for 42% of total loan value in grains and livestock, moreover, 25 went for livestock. The remaining five were for grains (Table 20). The increase in delinquency with loan size, moreover, was more pronounced and more consistent in livestock. The smallest borrowers, with loans less than US$250, were the best repayers of livestock loans (Tables 15 and 16).

With respect to the value of overdue payments in grains, delinquency was equally spread across loan-size classes, in cattle, however, these delinquent amounts were concentrated in the largest size classes (Table 12).[1] With respect to the value of delinquent loans, the situation was similar. Delinquency in grains was not concentrated among a few borrowers, whereas in livestock it tended to be. In grains, that is, delinquency was both 29% of the value of total loans and of the number of loans; in livestock, it was 18% of the value of loans and almost half that of the number of borrowers --10%.[2]

Livestock loans seemed to go to operators with acreages well above small- and medium-farmer size. In a sample of 20 livestock loans, eight went to farmers with properties of 100 to 250 hectares; three had 50-100 hectares; and eight had between 20 and 50 hectares (Table 22). Only one of these sampled livestock borrowers had less than 20 hectares of land. AID and the BNF usually defined small farmers as having up to 10-15 hectares of land. Even the IBRD livestock project for Honduras defined farm size as below most of those in this sample. A "small dairy farm" was 30 hectares, and a medium

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[1] The delinquency picture was even worse among the active cattle loans, which accounted for 9% of the cattle loans and 31% of their value. Of these 20 active loans, 11 were delinquent--amounting to 64% of amounts due on active loans. The 11 delinquent active loans included the only five cattle loans that were made for a seven-year period, instead of the more normal four-year loan period (Table 23).

[2] Or, counting total amounts of active loans rather than just their amounts due, delinquency was 25% of loan value and 10% of the number of borrowers (Table 10).

one was 50.[3] The hectareages of many 018 cattle borrowers, then, were well beyond the spirit of the program.

From the point of view of bank collection procedure, one would have expected a better collection record on livestock than on grain loans. By concentrating its collection efforts on a few large loans, the Bank could have recouped with the same effort a much greater share of its overdue livestock credit than it could have with grains. Livestock loans involve an asset that is easily attachable, moreover, whereas crop loans were secured mainly by the harvest; if that were lost, there was no object of value to attach. Many of the livestock loans were secured with guarantees additional to the cattle purchased with the loan capital--amounting to a guarantee value several times that of the loan (e.g., Table 20). On these loans, then, there were other attachable assets.

Contrary to what one would expect, the greater ease in collection of the livestock loans did not result in less delinquency in the livestock portfolio in comparison to grains. The value of delinquent livestock loans in the total delinquency of the 018 portfolio of my sample was exactly the same as the share of livestock loans in that portfolio--about 72%. This leads one to believe that delinquency was more a reflection of the power of the borrowers than

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[3] IBRD, "Appraisal of the Second Livestock Development Project - Honduras," 12 September 1973, Annexes. Most of the 018 livestock credit was for dairy rather than beef cattle.

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of their repayment capacity or of the overall quality of the Bank's collection procedures. Or, as an AID/BNF contractor put it:

> Experience has shown that, on the one hand, cattle loans generally show the greatest possibility of recuperation. On the other hand, however, there is a tendency for the cattle borrower to delay repayment, to become delinquent, in order to reinvest the income from the project and to capitalize his business. Generally, it can be said that cattle borrowers are a little more sophisticated in their use of credit, but more difficult to manage by the lending institution. They are less reliable on meeting the conditions and terms of the loan. This happens even though their economic position provides them with a greater ability to repay than the producers of crops (basic grains).[4]

Advance payment with subsidized interest rates: long term credit and speculation. The most striking aspect of the livestock loans, and one that throws some light on the discussion above, is that 65% of the loans and their value were repaid in advance (Table 10). In addition, payment was never made on 10% of the amounts due, 8% was partially delinquent, 4% was fully repaid but with delay, and 14% was paid on time. In the grains portfolio, in contrast, almost the same share--54%--represented amounts that were fully paid but with delay, rather than in advance. Advance-paid loans accounted for only 5% of amounts due in grains.

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[4] AID/H, "El crédito para el pequeno agricultor en Honduras," August 1972, p. 29. Translation mine.

The advance payment on these medium term loans is puzzling for various reasons. Advance payment was more evenly spread among loan-size classes than was delinquency. Small borrowers were just as represented in advance payment as were large borrowers--in contrast to the case of delinquent payment, where overdue amounts increased with loan size and were concentrated among a smaller proportion of large borrowers (Table 25). These early payments were made not only a few months in advance; almost half the value of such amounts was paid from between one and three-and-a-half years in advance, representing 36% of the number of advance-paid loans (Table 24). The other half was paid up to 12 months in advance, accounting for 64% of the number of loans. Thus the larger among the advance-paying borrowers paid more in advance than the smaller.

This widespread advance payment does not jibe with the quotation closing the last section. It also goes against one of the newer wisdoms in the development field--namely, that a farmer with excess subsidized credit on his hands will employ it for other purposes than that for which it was intended--especially a large farmer. He will earn a profit by re-lending it at higher market interest rates until it falls due, according to this logic, or he will invest it in activities yielding a return higher than the interest rate. This logic has become part of the recent argument against subsidizing the interest rates on government-promoted credit programs. The availability of loan capital at a concessional rate, it is said, will attract large borrowers with an eye for making profits on the spread between that rate and the market return on capital. This undesired attraction, in turn, will divert the loan capital from the purposes of the program. AID made this type of argument with respect to the BNF interest rate in early 1974. "There is every indication that the [interest] rate structure enforced by the Central Bank is well below the levels a free market would establish. This forces lenders to adapt their lending criteria accordingly and rely on non-market considerations in making their credit allocations...It is clear that the government should review the overall effects of the low rate structure established by Central Bank regulations."[5]

That the borrowers of the 018 cattle loans paid in advance means one of two things. Either the credit was not as concessional as was said, or the accepted wisdom is wrong--i.e., these types of borrowers do not like to be in debt, even when it makes good business sense. The truth may lie in a combination of both answers. Honduras, unlike some other Latin American countries, has not experienced inflation until the last few years. Between 1965 and

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[5]AID/H, "Honduras: Agriculture Sector Program," Report for the Development Assistance Executive Committee, 21 February 1974, Annex A, p. 7.

1972, the consumer price index rose by an annual average of 2.1%.[6] Until 1973, when inflation increased, the 9% nominal rate of interest on the BNF loans amounted to almost a 9% real rate of interest.[6] This was in stark contrast to inflationary economies like Brazil, Uruguay or Argentina, where a 9% nominal rate of interest is commonly paired with a 30% inflation--resulting in a 21% negative rate of interest in real terms. The BNF interest rate, in short, was considerably closer to the real cost of capital than were similarly concessional interest rates in other Latin American countries. The interest rate on 018 credit, then, may not have been concessional enough to evoke the kind of profit-seeking borrower behavior that is pictured in the argument against concessional interest rates.[7]

The argument against concessional interest rates was forged to a considerable extent out of the experience of economists working in countries like Brazil, with long histories of high rates of

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[6] Consumer price index figure from IBRD, Office of Latin America and the Caribbean, "The Economic Position and Prospects of Honduras," Report No. 339a-HO, 29 April 1974, p. i. The BNF's 9% rate of interest for "production" credit, including agriculture, compared to its 11% for "commercial" credit. Private banks were constrained by law to charge the same rates, but when extra charges and compensating balances are included, their real rate of interest varied between 12% and 18%.

[7] For the last few years, AID has urged the BNF to raise its interest rates above 9%. After considerable resistance the Bank finally agreed to allow an increase to 11% for the 025 loan. AID's position in this case was part of the general swing against subsidized interest rates that occurred in the early 1970s. The advance-repayment data may mean that this increase in interest rates was not as urgently needed as was thought, though the new inflation of the mid-1970s may now change that picture.

inflation. In countries with these levels and tenacities of inflation, it is more plausible to assume that concessional credit will attract large borrowers who will substitute it for other available funds--or divert the funds elsewhere. This is not only because the spread between the subsidized rate and the market rate is much greater than in a country like Honduras. Perhaps more important, the experience of living with inflation has caused the people of these countries to reappraise the value of indebtedness. In most countries, especially in rural areas, debt is considered bad, not good. Being responsive to the spread between concessional and market interest rates thus involves acting in a way that is directly contrary to deeply instilled values concerning debt. On more than a few occasions, farmers have responded with indignation to my questions about their credit, saying that they were "proud to have no debts."

All this means that to respond to a spread between interest rates involves not only the economic calculus of the accepted wisdom described above. It also requires action that is dissonant with an important social value. Because of the negative value placed on indebtedness, the spread may have to become more than just financially rewarding before borrowers will take advantage of it. This kind of behavior is more likely to occur in an inflationary country like Brazil than in a country like Honduras, simply because the opportunities for it and the rewards from it are greater.

The other way in which behavior that contravenes basic values may occur is if the values themselves change. After many years of inflation, indebtedness comes to be perceived as a way of coping with a phenomenon that is considered permanent. Many years of inflation gives people evidence again and again that those who are in debt do better than those who are not. Living with inflation, then, results in a reversal of the association of debt with poverty and irresponsibility. When indebtedness loses a good deal of its opprobrium, borrowers are less trammeled by their values in responding to a profitable spread between subsidized and market interest rates. It takes a long time, however, for this value reversal to occur on a large scale. It has already taken place in Brazil; in countries like the United States or Honduras, it is only starting.

Inflation-ridden countries, then, are places where one is likely to find borrowers responding with zeal to concessional interest rates. The real spread is greater, and the long history of inflation has eroded the negative value associated with indebtedness. Honduras, however, does not have that type of spread or that type of history. I was more likely to believe it, then, when BNF loan monitors told me that cattle borrowers repaid in advance because "they don't like to be in debt any longer than

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they have to." The advance payment of the Honduran cattle borrowers, in sum, suggests that the conventional wisdom--about concessional interest rates attracting large borrowers who divert loan funds--is not as generally applicable as one might think.

All this does not explain why such a large portion of cattle borrowers were able to pay their loans in advance. The amortization period was not excessive in relation to other loan programs. The four years of most of the loans compare to seven-to-nine year periods for IBRD cattle loans. The period under review was one of steady increase in the price of beef, along with certain other prices. It is not possible, however, to compare the beef prices projected by AID with those actually occurring, because no such analysis was done. It is not possible to determine if the advance payment was a result of an increase in expected returns over expected costs in cattle during the loan period. Since the period under review was one of steady increases in many prices, not only cattle, it cannot be said without further analysis that the increase in the price of cattle made the investments pay off earlier than they normally would have. Even if this were the case, however, one would have expected different advance payment behavior for dairy cattle vs. beef cattle, for the two activities have different structures and time streams of costs and returns. Surprisingly enough, however, advance payment on the dairy cattle loans behaves exactly the same as that on the beef cattle loans. It is almost exactly the same percentage of total loan value and of the number of loans (Table 26).

The unusual amount of advance payment in cattle may have been a result of the droughts in 1971 and 1972. With rising beef prices, cattle owners may have decided it was better to sell off their herds prematurely, rather than absorb the costs of weight and life losses resulting from the drought. The loans may also have been paid in advance because they were used for speculation that took advantage of increasing cattle prices. Though I was not able to pursue this hypothesis further, it was suggested in an AID/BNF evaluation of the 018 loan. "In many cases," the evaluators reported, "there are [livestock] borrowers who use the credit for speculation in the purchase and sale of livestock. With a seven-year loan, one could engage in up to 15 of such speculative operations..."[8]

Whether or not the advance repayment on the livestock loans is indicative of speculation, the repayment periods on these loans turned out to be too liberal in almost the same proportion

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[8]AID/H, "Evaluación del préstamo AID-522-L-018," April 1971, pp. 19-20. Translation mine.

as the periods turned out to be too stringent on the grains loans. As noted above, more than half the value of the grain portfolio was repaid with delay and half of the cattle in advance. The point is important because it is the repayment periods on investment loans like cattle--and not those of short term crop loans--that are commonly considered too short by foreign assistance institutions. Medium and long term capital are said to be in short supply. The AID evaluation that preceded the first BNF loan, for example, advised that almost the entire BNF livestock portfolio "should be converted or refinanced on a long term (seven years or more) basis in order to encourage the livestockmen to hold cattle on the farm, and to make those investments which will contribute to increasing the carrying capacity of the farm."[9]

The recommended longer repayment periods may be creating some of the problems that subsidized interest rates are said to cause--more so than the subsidized interest rates themselves. The fact that funds can stay outside a bank for a longer period of time than usual may be more determining of how they get used than anything else. If such subsidized credit is indeed used for speculation, its attractiveness is determined by the general scarcity of long term funds in the banking system regardless of the degree of subsidy

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[9] AID/H, "Evaluation of Banco Nacional de Fomento," [illegible] August 1967, p. 25.

in the interest rate. The speculation value of subsidized credit, in short, results from supplying the banking system with funds that can be kept out for a longer time period than usual. For an institution like the BNF, where large borrowers have a history of easy access, it may be quite difficult to resist borrowers who are attracted for these reasons. In countries where long term capital is scarce, then, interest rates may be less of a culprit in causing diversion of funds than long repayment periods. An AID-urged move of the interest rate up a few percentage points closer to reality would not have much impact on this particular problem.

All this may help explain why recipient country governments and banks are often reluctant to supply long term credit on their own. In a society with fewer institutional controls over borrowers than what we are accustomed to, one has to rely on arbitrary protections like short amortization periods to keep tabs on one's loan capital.[10] Thus, long term credit, rather than helping to "hold cattle on the farm," may contribute even more than short repayment periods to just the opposite result.

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[10] The IBRD seeks this protection by setting up its cattle loans as independently as it can from the organizational environment of the executing bank. Separate accounting and auditing are placed in an office created solely for the program. The ratio of loan supervisors to borrowers is higher in these separate offices, and the uses to which funds are put is closely monitored. Though this hothouse approach to an institutional problem has serious shortcomings, the fact that it is insisted upon indicates the degree to which the IBRD feels that existing institutions cannot get long term investment credit placed where it is supposed to be.

Why livestock credit? Livestock loans amounted to 64% of the value of 018 loans; in my sample, its share was 76%. Given the problematic aspects of this credit, the question arises as to why it played such an important role in a loan program centered on basic grains. With the financing for grain storage facilities, the 018 loan gave the BNF the power to control price fluctuations; with its credits for grain production, the loan sought to increase the production of grains. Grains, moreover, gave the program an eminently small-farmer cast. This made it a more attractive program for AID support. The government, moreover, was facing demands for agrarian reform from peasant farmers, most of whom produced grains. A grains program meant that the government was doing something for the peasants.

A search for the documentation leading up to the 018 loan shows a paucity of discussion about the reasons for including livestock credit, in contrast to that for grains. In the loan paper, casual reference was made to "potential productivity increases" in livestock, and the fact that 16% of Honduras' total area was "suitable for pasture."[11] Mention was made of an Immediate Action Plan of the government which included, among other things, "increased technical help to rural areas and in particular to producers of basic food and feed crops and livestock."[12] The only other mention of livestock in the loan paper was the comment that most small farmers "have a few head of cattle."[13] There was no description of the livestock scene in Honduras, and no production or cost data--in contrast to the case of grains. There was no discussion of policy reasons for emphasizing livestock, in contrast to the project's integrated program of credit to grains farmers and construction of grain storage facilities. There was no indication as to whether the program hoped to stimulate dairy or beef cattle production, even though the implications of selecting one or the other activity are different. The "few head of cattle" belonging to the small farmer and referred to in the loan paper,

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[11] AID/LA/DR, "Honduras: Agricultural Credit and Storage," 20 June 1968. p. 10.

[12] Ibid., p. 15.

[13] Ibid., p. 19.

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are usually used for milk and not beef production.[14]

The most "extended" justification for livestock credit appeared in the 1967 evaluation of BNF lending. The evaluator rued the fact that "only 18.2% of the [BNF] portfolio is being made available for livestock" and suggested that this proportion be increased considerably:

> Honduras has more good pasture land unoccupied than any Central American country. Not underoccupied, just literally not occupied. Much of this land is not fenced, and not stocked. Honduras is exporting molasses that could and would receive a better market if used to fatten cattle, in combination with the available pasture. Under these conditions, Honduras should be able to increase its livestock population by 200-300% and remain competitive in the international meat market.[15]

The evaluator went on to discuss financing arrangements for activities such as feedlot feeding, which indicated that he was not thinking of the kinds of small farmers around which the 018 loan paper was ultimately written.

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[14] From the small-farmer bias of the 018 loan, one might have guessed that AID's emphasis would be on dairy cattle. But AID's credit projections for the BNF show a greatly increased amount for beef cattle and an absolute decrease in the level of lending for dairy cattle (Table 1). BNF livestock credit today has undergone this reversal of emphasis from dairy to beef cattle, in about the same proportions as projected by AID in 1967 for 1972. In the 018 sample analyzed above, however, most of the cattle credit was for dairy and not beef. Even though one associates dairy cattle more with smaller-size operations than beef, these dairy cattle loans were more clearly concentrated among the large borrowers than were the beef cattle loans (Table 26).

[15] AID/H, "Evaluation of Banco Nacional de Fomento," 22 August 1967, p. 24.

The livestock credit of the 018 loan project, then, seemed to have little reason for being, especially when compared to the context in which the grains credit was set. In 1974, livestock credit appeared alongside grains again in the Hurricane Reconstruction loan paper, another small-farmer-oriented project. Presentation of the livestock aspect was similarly casual in comparison to that for grains.[16] The only answer to the livestock puzzle that fits all the pieces described above was the comment of an AID Mission officer. "We threw livestock into the loan," he said, "because the money never would have moved if we had it all in grains." Providing some support to this interpretation is the fact that concern was expressed in Washington, in the early stages of consideration of the 018 loan proposal, over the high local currency percentage (50%) of the project. It was suggested that by "pushing for more dollar import items (<u>cattle</u>, insecticide, etc.)" the share of local cost financing could be "substantially reduced."[17] A modified proposal of the same month suggested "cattle importation" as one of several areas to be covered by the loan, and livestock was henceforth a permanent fixture of the loan proposal.[18]

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[16] AID/LA/DR, "Honduras: Hurricane Rural Reconstruction," 13 December 1974. In this case, however, only 27% of the credit was programmed for livestock. P. 33.

[17] AID/LA, Office of Capital Development (CD), "Honduras: Banco Nacional de Fomento - IRR," Memo to the Capital Assistance Executive Committee, 28 March 1967. Emphasis mine.

[18] AID/H, "Honduras - Banco Nacional de Fomento," (IRR), 15 March 1967, p. 2.

I could not find any explanation of livestock inclusion in the 018 credit that contradicted or added to this one.

There is a certain irony in this casual inclusion of livestock with grains in a loan program at the same time that AID was trying to get the Bank away from its "large farmer" lending in coffee, cotton and tobacco. As noted above, Honduras is different from most Central American countries in that large landowning is associated more with cattle ranching than with crop agriculture. At least two of the "large farmer" crops singled out for phasing down in the 018 program are actually medium farm in Honduras--coffee and tobacco. The three crops, moreover, are concentrated in certain sections of the country. Livestock ranches, in contrast, are spread throughout. They are often associated in evaluations of Honduran agriculture with inefficient use of the land, considerable unutilized land, occupation of valley lands best suited for agriculture, and use of the hillsides by small farmers for crop farming.

Livestock farming has been much more an object of peasant unrest than crops like coffee and tobacco. In the south of Honduras, livestock and cotton expansion was singled out explicitly by the peasants as the cause of evictions from lands they worked.[18] In

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[18] Robert A. White, "The Adult Education Program of 'Acción Cultural Popular Hondureña' - An Evaluation of the Rural Development Potential of the Radio School Movement in Honduras," Full Report, Department of Anthropology and Sociology, St. Louis University, Missouri; and Centro Loyola, Tegucigalpa, Honduras, October 1972, pp. 816-869.

the struggle for land and other resources, then, peasants were competing more predominantly with livestock ranchers than with crop farmers--except for the case of cotton in the south. Coffee and tobacco--though obtaining a good share of BNF credit--were not associated with land tenure and peasant problems countrywide the way livestock farming was. Indeed, these two crops were explicitly spared by the agrarian reform legislation.[19]

Though the 018 project was against BNF financing of "large farmer" crops, it nevertheless allowed a major role for livestock, even though that activity was more associated with large farming than were the proscribed crops. If AID was intent on excluding certain crops because they were large-farmer, livestock was even more qualified for exclusion than crops. AID, of course, intended to keep all the credit away from large farmers by imposing ceilings on individual borrowing. These restrictions, however, seem to have been easily violated, as suggested by the data above.

Finally, the data suggest that the 018 program may have resulted in a substitution of AID funds for BNF livestock funds and that funds thereby liberated were used for the AID-proscribed export crops. AID wanted the BNF to increase the share of livestock

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[19] Honduras, Ley de Reforma Agraria, Decree No. 170 (Tegucigalpa: 1 January 1975), Article 38, Chapter III.

credit from 29% of total agricultural credit in 1967 to 39% by 1972 (Table 1). The livestock share of credit actually decreased, however, from 29% to 25% in 1974. The share of the BNF's <u>own</u> credit for livestock was only 6% in that year, moreover, while export crops took 80% (Table 2). During this period, livestock credit had come to Honduras not only from AID, but in even greater amounts from IDB and the IBRD. (The IBRD credit was channeled through private banks rather than the BNF.) As in the case of grains, then, the data suggest that foreign assistance for livestock enabled the Bank to lend for export crops what it might have normally lent for livestock. An AID-contractor evaluation also suggested that substitution of AID funds for BNF funds in livestock had occurred during the 018 program, though reference was not made to export crops.[20]

It is understandable that the BNF would have been more interested in export-crop farmers than grain farmers, since the former were larger and more well established. But why would the Bank turn its back on the largest farmers in Honduras, the livestock ranchers? Why would the share of the ranchers in BNF credit have fallen, when they had such economic power? The answer to the question leads to further evidence that AID funds allowed the BNF to lend its own livestock funds elsewhere--i.e., for export crops.

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[20] AID/H, "Estudio de evaluación del programa de crédito supervisado," August 1972, pp. 10-11.

The major share of livestock credit in Honduras comes from private banks. In 1970 and 1971, when 018 livestock credit was being disbursed, the BNF accounted for 30-33% of livestock credit and commercial banks accounted for the rest.[20a] This may mean that the livestock industry already had access to commercial bank credit before the 018 loan--even though they also had access to 018 funds, as shown by the large borrower data above. The AID evaluation asked, "Didn't the BNF have sufficient absorptive capacity during this period to be able to 'sell' a larger quantity of livestock credit, given the fact that it had sufficient funds available?"[21] The absorptive capacity of the livestock farmers rather than the Bank may be the key to the answer. The former may have been well enough supplied by commercial banks that the AID loan was superfluous.[22]

[20a] Unpublished data, AID/Tegucigalpa.

[21] AID/H, "Estudio de evaluación del programa de crédito supervisado," August 1972, p. 11. Translation mine.

[22] There are other possible reasons for the decline in the livestock share of BNF lending, in relation to the fact that livestock farmers are the large farmers of Honduras. One is that the livestock ranchers are receiving their credit under another rubric from the Bank; this could be a result of their being involved in other business ventures along with livestock. Another possibility is that the livestock farmers prefer and are able to finance their livestock activities, in contrast to their other business, out of their own resources. The fact that the livestock borrowers repaid their loans so much in advance suggests that the latter interpretation may be the right one. If this were the case, then the 018 loan, far from turning the Bank away from large farmer livestock clients, may have even introduced it to some new ones, who normally would not have borrowed for livestock there.

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Livestock credit, agrarian reform, and land clearing. It is hard to escape the conclusion from the above data that livestock credit is perilous for small farmer programs, especially when it is treated casually. In a country like Honduras, moreover, livestock and grain producers are in competition for use of the land--livestock represented by large landholders and grains by small farmers. Agrarian reform laws in Latin America often exempt properties on which improvements are made or are being initiated; or such properties are given a lower priority on the list of lands to be expropriated. The Honduran legislation was particularly liberal in this area, allowing three years to the owner of unutilized lands to start improvements that would qualify him as an "efficient" producer.[23] When AID makes livestock credit available at historical moments like these, it is quite possible that the credit helps to strengthen the large landowner in his attempts to avoid the law.

Each 018 livestock loan in my sample, for example, included from 50-100% of its funds for improvements like fencing, pasture formation and other construction (see, e.g., Table 20). The law specifically defined "efficiently worked" pasture land as that which is "duly fenced."[24] In the period between the issuance of Decree 8

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[23] Honduras, Ley de Reforma Agraria, Decree No. 170 (Tegucigalpa: 1 January 1975), Article 29, Chapter II.

[24] Ibid., Article 31, Chapter II.

in 1972 and the 1975 law, moreover, fences would have been helpful in preventing land occupation by peasants. Decree 8 allowed the peasants to "identify" the unutilized land which, in turn, would be considered by INA for "forced rental."[25]

Most of the 018 cattle credit was disbursed before the agrarian reform legislation started to appear in late 1972. But the threat of reform was in the air by the late 1960s, if not before. The political power of the peasants was rising during this period, and their demands centered on unutilized lands --particularly those of the cattlemen. It was probably apparent to landowners for some time, then, that investment in the improvement of cattle lands might provide some insurance against future expropriation.

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[25]The lands taken in forced rental under Decree 8 were expropriated under the 1975 law.

Not only the structure of the Honduran agrarian situation, but the experience of other countries also suggests that it would have been logical for landowners to have sought AID (and other) livestock credit with the above purposes in mind.[27] The Honduras Mission itself recognized this possibility, when it commented in 1974 that "demand for agricultural credit from larger farms will significantly increase due to increased investments (planting or livestock) made to lessen the threat of expropriation."[28] Whether or not the 018 livestock borrowers had these purposes in mind, AID should not open up these kinds of opportunities for the large farmer, especially in small farmer programs.

One final point about the livestock credit. The livestock credit of the 018 program was long term investment credit, whereas the grains credit was for short term working capital. This meant not only that the livestock credit was limited to those who could

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[27] This question has also been raised with respect to some of the IBRD's livestock loans. In Colombia, the Bank is known to have exerted pressure on the agrarian reform agency in behalf of some of its livestock borrowers who were threatened with expropriation.

[28] AID/LA/DR, "Honduras: Agriculture Sector Program," 21 February 1974, Annex A, p. 7.

undertake and offer guarantees for investment programs of a certain duration. It also meant that the program covered an important investment cost for livestock farmers but not for grains farmers: the clearing of land. Much of Honduran grain farming by small farmers involves frequent land clearing. This happens because of the crop rotation of peasant agriculture in a tropical climate, where growth of brush on fallow lands is rapid; because of the spread of cultivation to new lands, in a country with markedly less rural population density than the others of Latin America; because expansion of livestock farmers in the valleys pushes small farmers further up the hillsides; or because of the eviction of peasants from previously cleared lands.

The histories of Honduran peasant farmers seem filled with an unusual number of major land clearings. This clearing, needless to say, is an investment that yields for several years, and not an operating cost. It should be financed as such, as it was in the livestock loans. Though AID may have had various reasons for not financing land clearing for small farmers in the 018 program, it was to discriminate against grains farmers to allow such financing for livestock credit only. The problem seems to have been recognized in the new 025 loan, which includes land clearing as a financeable and medium term item in its credit to small farmer groups.

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<u>Conclusion</u>. In following up on the questions posed in this section, it should not be forgotten that the best repayment record in the whole 018 portfolio was for the smallest class of cattle loans--from US$100 to $250. For beef cattle, moreover, the smallest borrowers were the only class in the livestock portfolio in which there were <u>no</u> delinquent loans (Table 26). It may be that these small loans represent borrowers who are not very different from those of the larger loan categories, in which case their good repayment has little relevance for small farmer credit programs. It may be, however, that these borrowers were in truth small farmers. The category is worth investigating further, for the experience may hold some insight on how to lend to small farmers for livestock.

Conclusion

There is a danger that these findings on the 018 borrowers and delinquents will be used only to make judgments about the quality of loan monitoring. The best of loan monitoring cannot solve other types of problems, however, which lie behind the findings presented above.

What you give up to work with small farmers. An institution that has established its power on the basis of serving a certain constituency--well-established operators--cannot easily close its doors to those constituents on selected occasions. When the Bank made loans outside of the spirit of the 018 agreement, it was not only violating the loan agreement. It was also acting out of a need to serve the constituency that accounts for much of its institutional power. Doing this makes perfect sense in an institutional environment in which organizational survival and careers have for many years been determined by servicing of a certain client population. To turn down credit to large operators because it is "against the agreement" involves turning one's back on one's source of support.

The problem of AID's BNF-type programs lies not only in loan monitoring, then, but in the selection of an institution for a small farmer program that must pay a certain obeisance to large clients. In contrast to the new population to be served by the AID project, these traditional clients have substantial power. Of course, a large farmer bank or some of its managers may be truly interested in small farmer programs. But their careers and their organization's strength will not be dependent on success at servicing these new clients.

Starting a small farmer credit program in a large farmer bank is not just a matter of placing one more client group under the same roof with the existing clients. It may seem so, since the introduction of small farmers into such an institution usually comes along with an increase in outside funds--as with the AID-018 loan.[1] To the large borrower, however, the bank is his service organization, no matter what the limitations on certain lines of its credit. When he stakes a claim on funds restricted to a new and un-influential class of clients--and is refused--then this is perceived by him as a decrease in accessibility of the bank to its traditional clients.

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[1]I assume that the loan program does not succeed in effecting a shift in the composition of total bank lending away from large farmers, as was suggested to be the case in the above section on export crops.

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If the new small farmer client had the political and economic power of the old one, the matter might be different. In this case, the new client could be just as important as the old one to the organizational and career survival of the bank and its managers. The political and organizational costs of denying restricted funds to the old client would be compensated by the power gained in servicing the new client. But there is no such institutional power to be gained from starting to service new small farmers in exchange for old large ones. The introduction of a small farmer credit program into a bank like the BNF, then, does not only involve an expansion of bank services to more borrowers and an increase in total credit. It also puts the bank in the position of withholding some credit from a type of client whom it never before denied. The difficulty of this kind of denial results in the kind of loan distribution seen above, shot through with large operators. This aspect of the problem is not amenable to loan monitoring.

To rest the carrying out of such a program on the force of loan monitoring and regulations about who is to be excluded is to make some unrealistic assumptions about the institutional environment. The management and administrative personnel of a state development bank are closer in class and custom to the old

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borrowers than to the new. The personalism involved in the social closeness of the bank to these old clients, in turn, will make it more difficult to apply formal regulations. One will not be able to count on the power of formal regulations to keep these clients out of certain lines of credit. An audit report made a similar observation regarding the fact that the loan appraisers at the branch level of the BNF were the same persons who worked on collection efforts.

> In light of the fact that the appraisal staff is charged with the responsibility for gathering the financial data on prospective borrowers, recommending approval or disapproval of loans, furnishing technical aid and financial counsel to the farmer, it would seem that adding the collection responsibility would not offer adequate internal controls. The close personal relationship with the client does not seem to be in keeping with the firm and often unkindly attitude that must be adopted by an effective collection staff.[2]

Relations with the new small farmer client will be less personal than with the old, because of the distance between lender and borrower in class and living environments. It will be easier for the bank to deal with this new client at arm's length--that is, subject to the formal rules of behavior that govern relations between groups that are more socially distant. One result of this greater formalism

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AID/AAG/LA, "USAID/Honduras, Agricultural Credit and Storage," Audit Report No. 1-522-71-114, 30 March 1971, p. 7.

between the bank and its new client would be a greater amount of compliance to loan regulations by the small farmers than by the large. This may explain why delinquency is greater in the larger classes.

All this is to say that one of the major problems of introducing small farmer programs into large farmer banks has nothing to do with the banking backwardness of small farmers or the unfamiliarity of the bank with ways of serving them. It involves, rather, the presence at the bank of a pre-existing and different type of client whom regulations exclude from the new program. No amount of monitoring or formal regulations can deal with this problem. There is considerable peril, then, in choosing to create a financial path to the small farmer that leads through a large borrower bank.

That a large farmer bank is manned with urban elites is not basic to this problem. After all, one finds the same elites and the same affinities with affluent clients all over the public sector. What is basic, rather, is a past history of fellow-elites as clients of the institution. A public sector institution with no such history of involvement will have an easier time of serving a new and poorer clientele. The very experience of the large borrower bank with credit, that is, turns out to be a <u>hindrance</u>

to its success in running a small farmer credit program.

In a sense, I am saying that organizational experience with a task (credit) can sometimes disqualify the institution for taking on that task in a certain setting. This happens when the organization's experience was gained with a client from whom it will be difficult to disentangle. Similarly, lack of experience with a task--credit to large borrowers--could make it easier when the same service was to be provided to a different clientele. Some of the institutional requisites for a small farmer program, then, relate more to past experience with certain clients than to experience with the task itself. As seen above, AID excluded the credit union federation (FACACH) from consideration as its institutional conduit for small farmer funds in 1973. The federation was said to lack experience with agricultural credit, though FACACH's past history was more involved with small borrowers and less with large farmers than was the BNF. The BNF was chosen, however, because of its experience with agricultural credit. According to the considerations raised here, AID's reasons for choosing the BNF also could have justified not choosing it.

The extension agent's loss. The history of an institution's relations with a large farmer clientele affects the carrying out of a small farmer program at levels other than borrower selection.

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The extension agent who works for a large farmer bank, for example, is used to receiving a certain "income in kind" from the large borrower. When the agent visits the large borrower's farm, he is often invited for lunch and has a relaxed and pleasant stay. He often receives produce from the farmer--a sack of avocados, for example. On special occasions, agents have been known to receive a young steer from cattle ranchers as a token of appreciation. These gifts are not irregularities. They are an integral part of the way people relate to each other in this type of society.

The work environment of the extension agent with the large farmer, then, can be very pleasant. At least as important, this working relationship supplies the agent with foodstuffs that are a significant part of his household expenditures. Though the small farmer will engage in the same kind of gift-giving with an appreciated extension agent or other public service person, the value of such gifts is nowhere near those recieved from the large farmer. Working with the small farmer is nowhere near as comfortable and remunerative for the extension agent.

To ask an extension agent to give up some of his large farmer work time for small farmers is to ask him to give up this income in kind and its psychic benefits. He is not likely to want to do so, accustomed as he is to this level of real income and

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dependent as he is on a salary that is difficult to live on. Moreover, the nature of his job is to spend long hours out of sight of a supervisor in the countryside. This makes it difficult to compel him to devote time to the small farmer if he does not want to.

The problem described here applies to extension agents of agriculture ministries as well as those of banks: the relevant factor in not where they work, but whether they have an established working relation with large farmers at the point that their institution starts in with small farmers. If they do, then working with the small farmer will mean accepting a lower level of real income. An extension agent starting his job with small farmers, or an institution starting its existence with small farmers, does not have to give anything up by serving them. The institution with a large farmer history does. This may explain in part why the supervision to be provided to small farmers in the 018 program by extension agents of the Ministry of Natural Resources barely materialized.[3]

Half-hearted commitment and how it works: two stories. Up to this point, I have been speaking of the problems of the best-intentioned large farmer bank in keeping small farmer credit away from its established clientele. The large borrower past of an institution

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[3]AID/H, "Estudio de evaluación del programa de crédito supervisado," August 1972, p. 19.

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also influences how committed that institution can be in the first place, and thus how well it will be able to carry out the new program. It is remarkable how a simple lack of sympathy in an important public institution can influence the outcome of an agrarian reform, or of a more modest attempt to help small farmers. When agrarian reform is in the air, for example, the peasant is in class conflict with the large farmer. During these times, small farmer programs like AID's 018 will be perceived by some bank people and large farmers as a taking of sides against the large farmer. Since the problem may not manifest itself overtly in bank behavior, it is difficult to convey without some detailed examples.

Some time after the issuance of Decree 8, the BNF was asked by the director of INA to enlist its extensionists ("peritos") in helping to identify and describe the lands claimed by peasant groups. By taking advantage of the extensionists' knowledge of the lay of agricultural properties, the government hoped to be able to deal more rapidly with the enormous press of claims made upon it after the issuance of the legislation. The Bank agreed to cooperate in this effort. In actuality, however, there was considerable foot-dragging by the extensionists and not enough insistence by their bosses. For bank personnel to have helped wholeheartedly with this matter would have involved some betrayal of their large-landowner clients, many of whom expected to be adversely affected by the agrarian reform process.

The following more detailed example of institutional lack of sympathy, and how it works, also took place during the agrarian reform. But it could have easily occurred, as will be seen, in another place at another time. When I arrived one day for a visit with a post-reform group that had recieved BNF credit, I found the leadership of the group in discussion with an agronomist and a lawyer from the BNF. I was with an agronomist from the Ministry of Natural Resources. The Bank men were telling the group that they thought the Bank would have to attach a tractor acquired by the group a few years ago with BNF credit. The tractor had been involved in an accident with a truck some months ago, and the owner of the truck had sued in court and won the case. The Bank, as the group's creditor, had first claim on the tractor. The tractor, in the meantime, had been placed in receivership by the judge during the course of the litigation, so that the group had not been able to use it for some time to help earn income to pay off the BNF loan. Thus the group was in arrears on its Bank loan for the tractor, in addition to having been ordered to pay damages to the truckowner. Since the purchase of the tractor, moreover, the group's income had fallen far short of that anticipated because of the hurricane of September 1974, and the drought that followed. Both events contributed to considerable loss on at least two crops.

The Bank men told the group that the Bank would probably attach the tractor and sell it, in order to collect on the overdue loan. They also told the group that it was not trying hard enough to pay off its loan. The group was keeping too much of its corn production for its own consumption, they said, and should have been handing over more to the Bank. This showed bad faith, they said, and was making them run out of patience.

The agronomist from the Ministry of Natural Resources asked if the Bank people had done an analysis of all Bank credit to this group, not only the credit related to the tractor. They had not, they said, for that was not within the purview of their task. It turned out that the Bank had also lent a considerable amount to this group for investment in another project, in addition to short term crop credit. Thus the loss of the tractor would have threatened the repayment of those credits as well, let alone the viability of the investment project. The Ministry agronomist proposed another course of action: instead of attaching the tractor, the Bank could require that the group rent out the tractor during

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the approaching planting season to other groups and private individuals without equipment. He convinced the Bank people to return that afternoon in order to reach an agreement with the whole group.

The meeting convened in the afternoon, after some searching for and prodding of the Bank agronomist, who was visiting with friends in a nearby town at the appointed time. The Bank agronomist expressed resentment to the group for "not handing over" more of its post-hurricane and post-drought harvest. The group was sullen in response. The Ministry agronomist led the discussion with a blackboard at his side. He made calculations of the costs and returns of renting out the tractor, and the time it would take for the rented-out tractor to pay off the court judgment and the delinquent credit. The group agreed to the plan, and the Bank agronomist agreed to propose it to his office. (I do not know whether this arrangement was put into effect.)

The tractor-rental plan made sense for anyone interested in the welfare of the group and in paying off its creditors. The Bank's approach, though perfectly defensible from a purely banking point of view, was a punitive one with respect to the future of the group. It was an unsympathetic approach, out of touch with the objectives behind the program of credit to these groups. Take this incident, repeat it many times over, and give it several variations. One ends up with substantial impediments to the success of small farmer groups, even though officially and on the surface the organization may show no opposition to these groups or to reform. The behavior that produces these impediments, and its consequences, are not apparent in the day-to-day relations AID has with such an institution during the negotiations and implementation of loan programs.

AID loans and the empowerment of institutions. That the above type of incident occurs, or that scorn for peasant groups is often openly expressed by BNF branch managers, should not be considered as unusual or unexpected behavior. It has special significance, however, for AID. To choose such an institution for a long intimate relationship is for AID to endow it with considerable power in relation to other public sector institutions. In general, important changes in the relative power of public sector agencies in agriculture can be brought on by any such AID program. These changes cannot help but have an impact on the prospects for an agrarian reform, on the success of the reform itself, or on other less sweeping programs for small farmers. Any foot-dragging by a BNF during an agrarian reform, for example, is backed by more power than would normally be the case, because of the strength gained by that institution during its long history of AID funds

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and assistance. All the institution has to do is drag its feet, as in the examples above, in order to have a significant impact on the course of the reform. One will not necessarily see open opposition.

When AID chooses a large farmer bank or Ministry of Agriculture for small farmer re-tooling, then, it not only runs the risk that large farmers will get a good share of the funds. In addition, this kind of choice can inadvertently alter the balance of power in the public sector so much in favor of the AID-funded institution that the probability of emergence of reform measures in the future, let alone of their success, can be considerably diminished. All this results from the choice of an institution that is admittedly not too interested in the small farmer cause, as in the case of the BNF, but is the only one around.

Mutually exclusive clients. I have been saying, in one way or another, that large farmers and small farmers are sometimes mutually exclusive as clients of the same organization. If the grafting of a small farmer program onto a large farmer institution is to work, however, the two groups cannot be mutually exclusive. From a strictly banking point of view, of course, there is no conflict in serving the two groups. But from the broader institutional-political context I have discussed above, there is. In most countries, rural poverty is perceived as a result of unequal distributions of land, income and other forms of wealth. Programs to alleviate that poverty are usually based on the assumption that wealth must be redistributed--whether it be through expropriation of land or milder measures such as tax reform or a shift in the composition of beneficiaries of a public sector program. Indeed, it has often been AID rather than recipient countries that has led the way in posing the rural development problem in these terms and pushing for redistributive measures.

Moving from this macroeconomic level of poverty analysis and remedies to the microeconomic institutional level of AID programs, it turns out that AID also proposes to put together in the same institution those who are to lose something in the macroeconomic wealth redistribution with those who are to gain. It is hard enough to accomplish this wealth transfer in the economy at large, for those who have the redistributable wealth are usually those who rule. But it is even harder to bring about the transfer when one makes the fortunes of new wealth recipients highly dependent on an institution that is the bailiwick of those with wealth to lose. Of course, it is difficult for a public sector organization to serve a group like small farmers even exclusively, if the advancement of that group is perceived as a threat to the wealth of more powerful groups. But it is much more difficult to serve the new group from within the very organization that houses the threatened group.

If small farmer and large farmer programs operate out of different institutions, then the conflicting objectives do not exist within an organization but between them. This latter institutional arrangement not only avoids internal organizational ambivalence around the issue of redistribution. It also helps to build a valuable esprit de corps, given the fact that the institution must fight for its program and clients with other organizations. If this kind of struggle occurs within an organization rather than between them, it will do just the opposite--keep the esprit de corps from forming. Even if there are those who will take the side of the new client, they will have trouble within their own organizaion rather than from just outsiders. Putting both clients in the same institution, then, is to make the agrarian reform process much more of a zero-sum game than it need be.

Credit and agrarian reform. What does an AID credit program have to do with an agrarian reform? AID's BNF projects involve plain credit, after all, not agrarian reform. So why should AID have had agrarian reform considerations in mind in choosing its credit-channeling institution? The answer lies partially in the fact that AID itself sees its small farmer credit programs as instruments to be used in the pursuit of the redistribution of income and resources. In some cases, like the second BNF loan, AID funds are actually part of a program of support to the reform itself. The 025 loan was meant, among other things, to beef up the various public sector institutions carrying out the agrarian reform and servicing its beneficiaries--the extension service, the cooperative department, the agrarian reform institute and the planning agency, as well as the BNF.

It may be that only when agrarian reform is actually in motion--as it has been in Honduras during a good part of the period studied--do the two types of clients actually become mutually exclusive when placed within the same service organization. But agrarian reform has been hanging in the wings in most Latin American countries for more than a decade. AID itself has been responsible for much of the prominence given to this concern for reform. Thus the opposition of the two groups has been latent, at the least, in every organizational setting where this kind of AID program has been pursued.

Alternatives to the Bank? Could AID have chosen an institution other than the BNF as its credit conduit to small farmers? AID said, in effect, that there was no other institution around. But by AID's own observations, there were some other institutions around--FACACH, the credit union federation, and FUNHDESA, a private foundation set up to finance various organizations working exclusively with small farmers.[4] FACACH had been created by AID in a previous period of history, and had shown more small farmer concern in its history than the BNF. Although AID expected FACACH to be an important borrower of its credits at the new BNF Coop Window, the Federation was not a direct borrower in the agriculture sector loan, nor were funds earmarked for it--compared to its role in the previous 018 loan. FUNHDESA, whose history of association with small farmer financing was more pristine than FACACH's, had received small amounts of AID monies in the past. Like FACACH, FUNHDESA would be able to borrow AID 025 monies at the BNF, but it was outside AID's institutional design for the sector loan.

By the time the sector loan was authorized in 1974, it may have been impractical for AID to lend directly to these latter institutions or to earmark 025 funds for them. This was partly because the government had in the meantime made a major commitment to supply the new agrarian reform

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[4]AID/LA/MRSD/SCD, "The Credit Component," April 1974.

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groups through the BNF. (This decision itself may have been partially determined by the empowerment of the BNF resulting from AID's previous loan in 1969, as suggested above.) FACACH and FUNHDESA, moreover, were part of a larger Social-Christian grouping of organizations that was somewhat at odds with the government program --partially out of rivalry over control of peasant organizations. To make FACACH and FUNHDESA the keystones of an AID small farmer credit program, therefore, might have been politically unrealistic. But even before it became politically unrealistic, AID had dismissed FACACH and FUNHDESA as candidates for direct borrowing for other reasons, as discussed above.

Should AID have created a small farmer credit institution from scratch, as in the case of FECOAGROH, instead of working with an established large borrower bank? The evidence suggests that it may be best, in such cases, for AID to take its rural development monies elsewhere. This may be more effective than choosing an institution that is "the only one around." The data analysis and the considerations presented above indicate that AID was much more sanguine about its experience with the BNF than was warranted --at least from the point of view of being able to create a genuine small farmer niche in the BNF.

Some progress toward serving small farmers, of course, was made by the BNF. But with a lot of credit and a lot of technical assistance, some progress will always be made. The AID relation with the BNF, after all, has gone on for seven years and is programmed to continue at least three more. From the point of view of AID's total Latin American program, however, this kind of progress on this amount of investment can be viewed as an inefficient way of going about the promotion of rural development. One may well end up spending much more on a BNF-type institution than on one that is committed from the start--in order to bring the institution around to the small farmer and to clear up its large-borrower-associated problems.

Small farmers, for example, have enough of a problem with delinquency as it is, because of their vulnerability to environmental problems beyond their control. Yet their performance on delinquency is thrown together in a BNF-type program with the performance of the large farmer delinquents whose large loan values and even larger share of delinquency weigh heavily in overall delinquency. The lending institution, in turn, ends up obtaining considerable AID assistance to deal with a problem that is not as great as it would be without large borrower intrusions into the program. The resulting exaggerated prominence of the problem misspecifies it as a small-farmer one. It prevents the institution from working on an approach to delinquency that is uniquely small-farmer. The same amount of resources invested in a committed institution would yield for AID a more significant return on the small farmer problem--simply because one does not start out with the handicap described above.

Keeping politics out of development projects. In partial answer to the question of what credit has to do with agrarian reform, I have been saying that to provide small farmers in Latin American countries with considerable amounts of credit is, at certain times and places, a political act. This is distinct from AID's view of its projects as hard-core, "technical," economic-development projects.[5] In AID's eyes, a small farmer credit program revolves around the training of extensionists, computerization of collection procedures, teaching peasants to use new technologies, and getting the credit to the peasant in the right amount and at the right interest rate. Such a program is also an attempt to shift the balance of power in the countryside, an attempt to get a reluctant society to commit resources to a neglected group. When defined in this broader way, the small farmer program will not go very far on an exclusively "technical" design. It needs to be served up in an organizational setting

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[5] Robert Packenham describes this view in Foreign Aid and Political Development, Ph.D. dissertation, Yale University, 1964.

built to surmount society's reluctance, to withstand the opposition that the program will evoke.

It is not the input in itself, like credit or seeds, that is going to make or break small farmers. A successful small farmer credit program also means the empowering of a dedicated institution, or part of it. The amount of the input and the form in which it is supplied--its "technical" aspects--are secondary in importance to the quality of commitment and power of the supplying institution. In a sense, then, the goals of AID small farmer projects should include not only the supply of an input to the target group, but also the supply of a committed organization to the public sector. The tendency for the technical perspective to reign in AID does not involve an ignorance of these basically political considerations. But it has resulted in a failure to include them in project design.

In a way, it is as if AID is shy about the fact that in its rural development projects it *is* taking political sides-- as if this kind of content to its decisionmaking is too difficult to integrate into its "technician" self-image. Though it may not look like it during a loan review in Washington, AID's small farmer programs certainly do amount to the taking of sides in the political environment where the project is happening. In Honduras, for example, large landowners often characterize AID's agriculture programs as the work of "outside leftists." From their point of view, they are right.

AID's tendency to separate out politically "neutral" technical aspects from the setting of a small farmer program, and to choose to become involved solely with them, results in a certain self-imposed undermining of its own projects. The decision to support the small farmer in Honduras and later the agrarian reform, for example, amounts to a strong taking of sides on a highly polarized political issue in that country. The decision to channel that support through a BNF, however, is a decision to empower an institution tied inextricably to the other side of the issue. It is to place the one side of the controversy at the mercy of the other side with respect to the supply of an input as crucial to the success of the redistribution process as credit. Viewed from a "technical" vantage point, free of politics, there is no problem in this decision; indeed, it makes good sense. But when one includes the political context in which the technical parts of such a project are embedded, the decision seems less reasonable.

The conception of a development project as having an isolatable and politically neutral technical core probably harks back to the days of capital projects in the 1960s, when many of AID's loan funds went for projects in transport and power. There was less political content in such projects. Of course, putting a hydroelectric project in one state rather than another would help the political career of one governor vs. the other. But these projects did not have the broader political significance of supporting one class against another. Many of them produced "public goods," which meant that consumption of their services by one group did not necessarily mean that there was less left for the other.

The old capital projects were political only in the sense that those who were in the best position to reap project benefits were the group in power. The retrospective recognition of this incomplete spread of benefits resulted in a shift of emphasis in the development literature and foreign assistance programs from straight capital projects to employment and income distribution concerns. In that the groups left behind by the capital projects of the 1960s were powerless and unable to make conflicting claims on the use of resources, any discontent on their part with public sector investment decisions went unvoiced or unheard. Thus the transport and power decisions were apolitical only in the sense that the other side was not represented in the political spectrum.

Rural development projects are different from capital projects in two ways. First, they explicitly favor one side (the rural poor) and explicitly exclude the other (the rural well-off). Capital projects, in contrast, have been said to benefit all. Second, to the extent that the benefits of capital projects actually touched the rich more than the poor, they came down on the side opposite from that of the rural development projects. In contrast to capital projects, however, the group that is excluded from the benefits of rural development projects is very much within the political spectrum. Discontent with AID projects is now encountered because the implementing institutions are peopled, to a considerable extent, with the left-out side--or friends and relatives of it. In effect, then, the capital projects were apolitical only in the sense that the left-out side was not in the position to engage in the kind of program-impairing and foot-dragging behavior described above.

The political content of the capital projects, then, was not noticed because it was compatible with the groups in power. It was easy for AID to proceed as if the projects were completely "technical," for nothing in the political setting would disrupt that way of proceeding. In contrast to the rural development projects of today, the success of the project itself was not influenced by discontent in the groups left out of its benefits. With today's projects, the case is the opposite: the left-out groups are vocal and in power.

Thus the political impact of AID's side-taking in the 1970s is much more likely to have an impact on project success. The perception of project design as exclusively "technical" is more incomplete than it was in the 1960s, more in error than it was in the case of the capital projects. I am not suggesting that AID abandon its staying-away from politics or that it jump enthusiastically into the political fray. I am suggesting, rather, a more explicit recognition of the side-taking involved in its rural development projects, so that corresponding adjustments can be made in their institutional design.

The idyll of income redistribution. AID's cooperative rhetoric is infused with the idea that those now excluded from the development process need only hitch themselves up to the engines of growth in order to progress. Cooperative organization allows this hitching, according to the rhetoric, whereby the poor can come to earn well alongside those who are already doing so. This implicit view of development does not accord with the peasant's perception of his world, which is shot through with conflict and the desire to get something back from those that have.

The placing of a small farmer credit program in a large farmer bank also seems to partake of this somewhat idyllic image of the process of income redistribution. It ignores the existence of conflict between the haves and the have-nots and its potential impact on project success. It precludes recognition of the fact that many project designs inadvertently give to the haves significant power over the struggles of the have-nots. During the long period of agrarian turbulence in Honduras--from the land invasions of the late 1960s through the military coup of the late 1972 to the present period of post-reform disturbances--there was little reference in AID documents to the relationship of these events to the institutional design of the 018 and 025 loans. It is not that people did not know what was going on, or that they were covering up. Rather, it was as if the events were not considered relevant to project design.

Implicit in AID's neglect of these matters is a view of the peasant as having untrammeled access to wealth once the technical inputs are in place. But if one sees the peasant as also downtrodden by the powers that be--as he is frequently portrayed in AID prose --then the organizational arrangement of a rural development project will be quite different. Even if one places the small farmer program in a large farmer institution, for example, there can be some explicit recognition of the problem and some explicitly protective features built into project design. Conflict, in sum, is an integral part of the setting for a program whose broad objectives are income redistribution. Projects must therefore be designed to minimize the power of the other side to intrude.

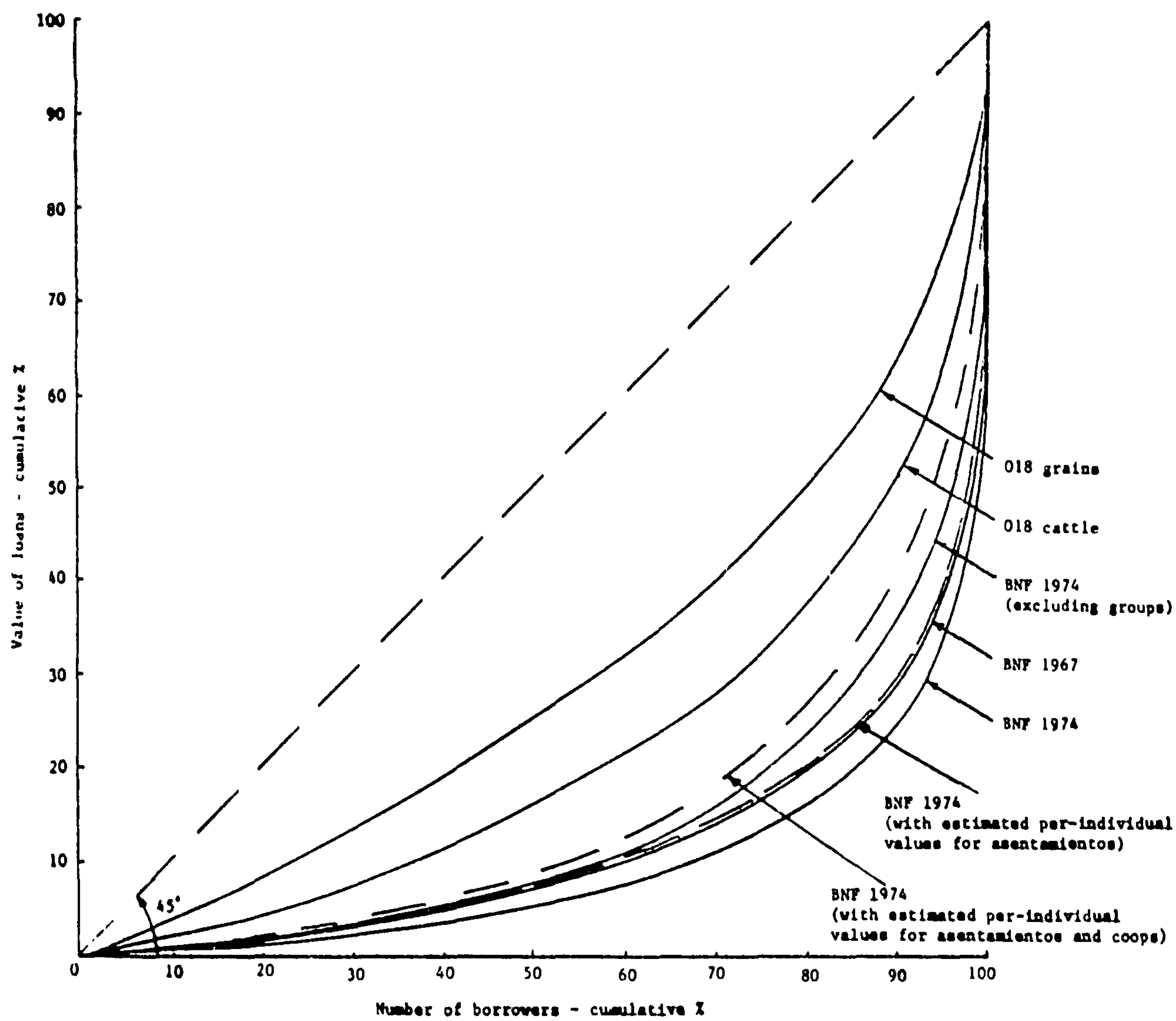
In a way, the "technical" conceptualization by AID of its rural development projects is a kind of retreat from the complexities and difficulties of dealing with a project's political setting. By compartmentalizing income redistribution programs into their political and technical components, one can commit oneself "antiseptically" to income redistribution, staying clear of the complicated and messy political aspects of it. As shown above, however, the compartmentalization does not work. Political factors overflow their compartment and interfere with the execution of the technical job: the delinquency rate is higher than expected, the reform groups don't do as well as they might, a significant piece of the small farmer credit goes to large farmers, there is foot-dragging in the public sector on agrarian reform. Everybody gets puzzled about what went wrong and looks to exogenous and fortuitous events for explanation of the problem--droughts, floods, conflicts, changes of government, war. But a good part of the explanation turns out to be much more within reach and control. The small farmer credit program of the BNF is not atypical in this sense. The limited definition of the task at hand no doubt contributed to the fact that the taking away of BNF credit from established farmers was not achieved.

That AID's income redistribution rhetoric is not reflected in project design probably results from the fact that income redistribution concerns are a recent fad in development assistance. The old kind of project often gets dressed up in a new income redistribution garb, to satisfy the demands made on foreign assistance organizations to show more effort in this area. The old agricultural credit programs are now called small farmer credit programs; the old programs to increase production in the agricultural sector are called programs to redistribute income in the agricultural sector. But without a corresponding adjustment of project design to fit the new rhetoric, the income redistribution approach does not have much chance of going beyond its rhetoric.

It is not unusual in organizations like AID, which are subjected to frequent demands to change courses, that this kind of gap would exist between a program's literary presentation and its design. But this kind of gap cannot continue for long without resulting in failure, frustration, and cynicism. The Agency needs to take its own rhetoric more seriously and to appreciate the change in program design that it involves.

Figure I

Banco Nacional de Fomento (BNF):
Comparative Degrees of Inequality in the Distribution of Credit
(1967, 1974 and AID-018 Subloans)



The curves were plotted from the cumulative percentage data of Table 5. This type of curve is commonly used to represent varying degrees of inequality in the distribution of income--the "Lorenz curve." In this case, the distance of the curves from the 45° line shows the degree of inequality in the distribution of credit. The further a curve is from the line, the greater the inequality in the distribution of that particular type of credit. The 018 grains credit was the most equal, in other words, and total BNF 1974 credit was the most unequal of these distributions.

The BNF curve for 1967 includes groups (coops, asentamientos, etc.), as does the 1974 curve. Table 4b gives more detailed data on the role of groups in the total. The 1967 curve is more comparable with the 1974 curve that includes groups, for reasons explained in the text.

In order to obtain size distribution data that is comparable for these five distributions, I have read off the data by deciles from points on these curves (on a larger version of this figure, which was subsequently reduced). The results are presented in Table 5.

The two dashed curves were added when this study was revised in September 1976. They were calculated from the data in Tables 4a and 4b. In contrast to the curves above them, they count group credit per individual rather than per group. The per-individual credit is estimated by dividing the total value of loans in a loan-size class by the number of beneficiaries in that class, using the data in Table 4b. The resulting average per-individual loan size is re-distributed to the appropriate and smaller loan-size class. The last curve does this for both asentamientos and coops, and the second-from-the-last curve for asentamientos only. This latter curve is thus more comparable to the 1967 curve, which includes coop loans on a per-coop basis. (Asentamientos did not exist in 1967.) See text for further explanation (pp. 31-32).

Table 1

Banco Nacional de Fomento (BNF): Agricultural Credit by Type of Activity--1967, 1972 Projection, 1974 (lempira millions)

	1967[a]		1968 AID projection for 1972[a]		1974[b]	
	Value	%	Value	%	Value	%
Export crops						
Cotton	7.7	29.1	7.5	21.7	15.5	24.3
Coffee	3.6	13.6	3.5	10.1	9.2	14.5
Tobacco	2.5	9.3	2.4	6.9	1.6	2.5
Subtotal	13.7	52.0	13.4	38.8	26.4	41.3
Basic grains (corn,rice,beans)[c]	3.1	11.7	6.2	17.9	18.0	28.3
Livestock						
Beef (breeding)	0.5	1.9	4.9	14.2	6.0	9.4
Beef (fattening)	1.2	4.4	2.8	8.1	3.8	6.0
Dairy cattle	5.0	19.0	4.9	14.2	6.0	9.4
Other	1.0	3.8	0.9	2.6	0.2	0.0
Subtotal	7.7	29.1	13.5	39.1	15.9	24.9
Other	1.9	7.2	1.4	4.2	3.5	5.5
Total agriculture	26.4	100.0	34.5	100.0	63.8	100.0

One U.S. Dollar = two Honduran Lempiras

[a] Based on data from AID/LA/DR, "Honduras: Agricultural Credit and Storage," 20 June 1968, Table IX, p. 32.

[b] Based on data from Honduras, Banco Nacional de Fomento (División Técnica), Boletín Estadístico IV (January-December 1974).

[c] Includes a small amount of sorghum.

Table 2

Coffee: Export Value and BNF Credit, 1966-1974 (selected years)
(lempira millions)

	Export value[a]		BNF credit[b]		Credit as % of exports (annual average)[c]
	Yearly	Annual average	Yearly	Annual average	
1966	39.8				
1967	28.0	36.5	3.6		9.8
1968	41.6				
1969	37.0				
1970	51.8	49.1	5.1	4.9	10.0
1971	46.4		4.6		
1972	54.4				
1973	96.9	92.2	7.8	8.6	9.3
1974	87.4[d]		9.2		

One U.S. Dollar = two Honduran Lempiras

[a]1966-1969 data from IBRD, "Appraisal of the Second Livestock Development Project - Honduras," 12 September 1973, Annex I, Table 1; 1970-1973 data from AID/IDB/IBRD, "Statistical Annex" (Draft), Agricultural/Rural Sector Survey--Honduras, 13 December 1974, p. 6; 1974-1975 data from AID/LA/DR, "Honduras: Hurricane Rural Reconstruction," 13 December 1974, Table 5, p. 20. Though from different sources, these data are consistent because the figures for the overlapping years were the same.

[b]1967 figure from AID/LA/DR, "Honduras: Agricultural Credit and Storage," 20 June 1968, Table IX, p. 32; 1970-1971 data from AID/Honduras; 1973-1974 data from Honduras, Banco Nacional de Fomento (División Técnica), Boletín Estadístico IV (January-December 1974).

[c]The percentages are based on annual averages to the extent possible because of the incompleteness of my data and because of the wide annual swings characteristic of agricultural production. Three-year moving averages of production would have been the best for revealing consistent trends in the share of crop financed.

[d]Estimate.

Table 3

Banco Nacional de Fomento (BNF):
Agricultural Credit by Source of Funds--1967, 1974
(lempira millions)

	1967[a]						1974[b]											
	BNF		IDB		Total		BNF		IDB		AID		INA[c]		Gov't[d]		Total	
	Val.	%	Val.	%	Val.	%	Val.	%	Val.	%	Val.	%	Val.	%	Val.	%	Val.	%
Export crops[e]	13.6	65.7	0.1	2.2	13.7	52.0	23.4	79.3	0.8	4.5	0	-	1.0	13.7	1.1	15.2	26.4	41.3
Basic grains[f]	1.1	5.5	1.9	33.9	3.1	11.7	1.9	6.4	3.3	18.6	0.8	62.3	6.0	78.3	6.0	80.7	18.0	28.3
Livestock	4.4	21.1	3.3	58.3	7.7	29.1	1.8	6.1	13.6	76.2	0.2	11.8	0.1	0.8	0.2	2.9	15.9	24.9
Other	1.6	7.7	0.3	5.5	1.9	7.2	2.4	8.2	0.1	0.7	0.4	25.9	0.5	7.2	0.1	1.2	3.5	5.5
Total	20.7	100.0	5.7	100.0	26.4	100.0	29.5	100.0	17.9	100.0	1.4	100.0	7.6	100.0	7.4	100.0	63.8	100.0
% of source in total lending		78.4		21.6		100.0		46.2		28.0		2.2		11.9		11.6		100.0

One U.S. Dollar = two Honduran Lempiras

[a]Based on data from AID/LA/DR, "Honduras: Agricultural Credit and Storage," 20 June 1968, Table IX, p. 32.

[b]Based on data from Honduras, Banco Nacional de Fomento (División Técnica), Boletín Estadístico IV (January-December 1974). Data excludes L.83,986 in credit from the Central American Bank for Economic Integration (CABEI).

[c]Instituto Nacional Agrario. Credit stipulated for use by small farmers in INA's settlement projects.

[d]Mostly credit channeled through the Central Bank to the BNF (L. 7.1 million). Most of this credit was designated by the government for use by peasant groups who received land through the agrarian reform.

[e]Coffee, cotton and tobacco.

[f]Corn, rice, beans and a small amount of sorghum.

Table 4a

Banco Nacional de Fomento (BNF): Distribution of Loans by Size--1967 and 1974[a]
(lempira millions)

	1967[b]						1974[c]						1974 (excluding groups)[d]					
	No. of loan	%	Cum. %	Value	%	Cum. %	No. of loan	%	Cum. %	Value	%	Cum. %	No. of loan	%	Cum. %	Value	%	Cum. %
0-200	194	1.9	1.9	0.03	0.1	0.1	950	4.9	4.9	0.2	0.2	0.2	950	5.0	5.0	0.2	0.3	0.3
201-500	3,764	36.1	37.9	1.5	4.7	4.8	5,192	26.6	31.5	2.0	2.4	2.6	5,190	27.2	32.1	2.0	3.9	4.2
501-1,000	3,001	28.8	66.7	2.4	7.7	12.5	5,368	27.5	59.0	4.2	5.2	7.8	5,363	28.1	60.2	4.1	8.2	12.4
1,001-2,500	1,863	17.9	84.6	3.1	10.2	22.7	4,123	21.2	80.2	6.8	8.4	16.2	4,104	21.5	81.7	6.7	13.3	25.7
2,501-5,000	869	8.3	92.9	3.2	10.4	33.1	1,911	9.8	90.0	6.7	8.4	24.6	1,874	9.8	91.5	6.6	13.0	38.7
5,001-10,000	377	3.6	96.5	2.8	9.1	42.2	904	4.6	94.6	6.9	8.6	33.2	852	4.5	96.0	6.5	12.9	51.6
10,001-20,000	164	1.6	98.1	2.5	8.2	50.4	522	2.7	97.3	7.4	9.2	42.4	457	2.4	98.4	6.5	12.8	64.4
20,001-50,000	127	1.2	99.3	4.1	13.4	63.8	330	1.7	99.0	10.3	12.8	55.2	228	1.2	99.6	7.0	13.8	78.2
50,001-100,000	43	0.4	99.7	3.1	10.0	73.8	117	0.6	99.6	8.1	10.1	65.3	51	0.3	99.8	3.5	6.9	85.1
100,001-250,000	21	0.2	99.90	3.2	10.3	84.1	46	0.2	99.8	6.8	8.5	73.8	21	0.1	99.9	3.1	6.1	91.2
250,001-500,000	7	0.0[illegible]1	99.97	2.6	8.3	92.4	17	0.1	99.9	5.3	6.6	80.4	5	0.026	99.97	1.5	2.9	94.1
500,001-999,999[e]	2	0.019	99.99	1.3	4.3	96.7	7	0.036	99.98	4.7	5.8	86.2	4	0.021	99.99	2.4	4.8	98.9
1,000,000 & over	1	0.010	100.0	1.0	3.3	100.0	4	0.020	100.0	11.1	13.8	100.0	1	0.005	100.0	0.5	1.0	100.0
Total[f]	10,433	100.0		30.9	100.0		19,491	100.0		80.3	100.0		19,100	100.0		50.5	100.0	

Table 4a (continued)

One U.S. Dollar = two Honduran Lempiras

[a]Percentages were calculated from unrounded figures. This data is presented graphically in Figure I to facilitate comparison. Data is presented by deciles of borrowers in Table 5. Table 7 shows a size distribution of subloans made under AID's Agricultural Credit & Storage Loan (018).

[b]From AID/H, "Agricultural Development" PROP, 11 December 1970, p. 6. Source implies that data refers to all lending, not just agriculture, which accounted for 50%. Total value figure, however, is too low to include all lending, since agriculture itself was L.26.4 millions in 1967 (Table 1).

[c]From Honduras, Banco Nacional de Fomento, Memoria Anual - 1974, Tables 9 and 9-A, pp. 33-34.

[d]Based on data from Banco Nacional de Fomento, Memoria Anual 1974, Tables 9 and 9-A, pp. 33-34. Groups are cooperatives, peasant settlements, and agriculture and livestock associations. They account for 37% of total credit (see Table 4b). 1967 data include such groups and only the 1974 data allowed their exclusion.

[e]BNF data for 1967 and 1974 list this interval as L.500,001-750,000, and show no L.750,001-1,000,000 interval. I have assumed that this is a mistake, since the BNF's own breakdown of the 1974 data by groups shows one loan in the L.750,001-1,000,000 category. (In Table 9A of source cited in footnote d above.) I also thought it unlikely that in two such years, seven years apart, there would have been no loans in any particular interval.

[f]Percentage totals in table were calculated from unrounded figures. Discrepancies between totals and those obtained from adding rounded figures are no greater than 0.2%.

Table 4b

Banco Nacional de Fomento (BNF):
Loans to Groups, 1974

Groups	Groups		Beneficiaries		Value	
	No.	%	No.	%	Lempira millions	%
Cooperatives	64	16.4	3,609	27.7	17.5	58.6
Asentamientos	249	63.7	6,768	51.9	6.8	22.7
ANACH[a]	72	18.4	1,962	15.1	1.9	6.2
Cattlemen & farmer assoc.	6	1.5	691	5.3	3.7	12.5
Subtotal	391	100.0	13,030	100.0	29.9	100.0
Total BNF credit	19,491[b]				80.3	
% Groups in total	2.0				37.2	

One U.S. Dollar = two Honduran Lempiras

[a]National Association of Honduran Peasants. Loans are to "subsections" of these unions, which usually work the land communally.

[b]This figure includes individual borrowers and groups, counted as one.

Source: Based on data from Honduras, Banco Nacional de Fomento, Memoria Anual - 1974, Tables 9, 9A-E, pp. 33-38.

Table 5

Banco Nacional de Fomento (BNF):
Distribution of Credit by Size of Borrower--1967, 1974 and AID-018 Subloans[a]

Rank of borrowers (by deciles from smallest to largest)	Percent of loan value					Cumulative percent of loan value				
	BNF 1967	BNF 1974	BNF (without groups)	018 Cattle	018 Crops	BNF 1967	BNF 1974	BNF (without groups)	018 Cattle	018 Crops
1st	0.8	0.5	1.0	2.0	3.8	0.8	0.5	1.0	2.0	3.8
2nd	0.8	0.5	1.0	2.4	4.6	1.6	1.0	2.0	4.4	8.4
3rd	1.4	1.0	1.5	2.9	5.1	3.0	2.0	3.5	7.3	13.5
4th	2.0	1.5	2.0	3.7	5.5	5.0	3.5	5.5	11.0	19.0
5th	2.2	2.0	2.2	4.9	6.5	7.2	5.5	7.7	15.9	25.5
6th	2.8	2.3	3.0	5.2	6.7	10.0	7.8	10.7	21.1	32.2
7th	3.9	3.4	5.1	6.5	7.9	13.9	11.2	15.8	27.6	40.1
8th	5.6	4.8	7.7	9.6	10.5	19.5	16.0	23.5	37.2	50.6
9th	8.8	8.3	12.5	13.6	13.8	28.3	24.3	36.0	50.8	64.4
10th	71.7	75.7	64.0	49.2	35.6	100.0	100.0	100.0	100.0	100.0

[a]These percentages were found by reading off the appropriate points on the curves of Figure 1. Though they are thus approximate figures, they are quite consistent with the actual data presented in Tables 4a and 7a. This type of approach was the only way to obtain loan-size-distribution data that was comparable for the different years and the different credit lines.

Table 6

Banco Nacional de Fomento (BNF):
La Playa Branch as Percent of BNF System
(lempira thousands)

	La Playa[e]	Total BNF	La Playa as % of total
Loans authorized (1973-1974 annual average)[a]	3,216.5	75,289.5	4.3
Loan balances, 12/31/74[b]	5,639.9	114,301.9	4.9
Closing balance, 10/31/74[c]			
Loan balances	1,214.7	22,954.8	5.3
Repayments	26.4	710.1	3.7
Delinquent	44.1	947.5	4.6
% Livestock in AID-018 credit[d]			
Number of loans	52.6	41.9	1.3 (ratio)
Value of loans	72.6	64.4	1.3 (ratio)

One U.S. Dollar = two Honduran Lempiras

[a]Based on data from Honduras, Banco Nacional de Fomento, Memoria Anual - 1974, Table II, p. 44.

[b]Ibid., Table 12-A, p. 47.

[c]AID/LA/DR, "Honduras: Hurricane Rural Reconstruction," 13 December 1974, Annex II, Exhibit F.

[d]BNF figures based on data from AID/H, "El crédito para el pequeño agricultor en Honduras," August 1974, p. 26; La Playa data from my sample (see Table 7b). BNF data as of July 1972, and therefore not complete because 018 credit was not completely disbursed until December 1972.

[e]"La Playa" is a fictitious name for the particular bank branch.

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Table 7a

La Playa Branch of AID Agricultural Credit and Storage Loan (018): Size Distribution of Cattle and Grains Subloans[a] (lempira thousands)

Loan-size class (lempiras)	Cattle						Grains					
	No. of borrowers	%	Cum. %	Value	%	Cum. %	No. of borrowers	%	Cum. %	Value	%	Cum. %
100-500	61	26.5	26.5	24.1	6.1	6.1	103	49.8	49.8	37.7	25.4	25.4
501-1,000	94	40.9	67.4	76.3	19.3	25.4	77	37.2	87.0	50.3	33.8	59.2
1,001-2,500	43	18.7	86.1	74.7	18.9	44.3	21	10.1	97.1	29.7	20.0	79.2
2,501-5,000	24	10.4	96.5	89.8	22.8	67.1	4	1.9	99.0	13.5	9.0	88.2
5,001-40,000	8	3.5	100.0	129.5	32.8	100.0	2	1.0	100.0	17.5	11.8	100.0
Total	230	100.0		394.5[b]	100.0		207	100.0		148.6[c]	100.0	

One U.S. Dollar = two Honduran Lempiras

[a] Percentages were calculated from unrounded figures. Subloans were disbursed during the period 1970-1972. Information is presented graphically for purposes of comparison in Figure 1; it is presented by deciles of borrowers in Table 5.

[b] Value shown is actual total rounded to lempira thousands. Addition of rounded values in the column gives L.394.4 (thousands).

[c] Value shown is actual total rounded to lempira thousands. Addition of rounded values in the column gives L.148.7 (thousands).

Table 7b

La Playa Branch: Distribution of 018 Credit by Activity[a]
(lempiras)

	Loan authorizations (August 1970-December 1972)			
	Value	%	No.	%
Grains[b]				
Corn[c]	131,481	24.2	178	40.7
Rice[d]	17,128	3.2	29	6.6
Subtotal	148,609	27.4	207	47.4
Livestock[e]				
Breeding cattle	3,250	0.6	32	7.3
Fattening cattle	54,810	10.1	5	1.1
Dairy cattle	336,440	61.9	193	44.2
Subtotal	394,500	72.6	230	52.6
Total	543,109	100.0	437	100.0

[a]Excludes two agroindustrial loans to CAICESA, a subsidiary of Castle & Cooke, Inc., for African Palm cultivation. Loans amounted to L.600,000.

[b]Includes one active long term loan (7 years) for equipment purchase by cc producer. Loan was L.11,000, accounting for 7.4% of total loan value in grains. Excludes two group loans--L.3,650 and L.20,000.

[c]Includes two bean loans for total of L.700 and 14 combination loans where corn is the largest component, as follows:

4 loans - L.5,985 (corn, beans, rice)
7 loans - 4,460 (corn,rrice)
3 loans - 2,769 (corn, beans)

Total 14 loans - L.13,214

[d]Includes one rice/cattle loan (rice larger component) for L.500. Also includes combination loans where rice is the **largest component**:

1 loan - L.400 (rice, corn, beans)
5 loans - 2,600 (rice, corn)
1 loan - 500 (rice, beans)

Total 7 loans - L.3,500

Table 8

La Playa Branch: Repayment by Loan Size for 018 Cattle Loans, Master Table[a]
(lempiras)

Loan-size class	Never paid		Partially delinquent		Late but paid		Paid or paying on time		Paid or paying in advance		Total		
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Amount due	Disburse-ments	No.
200-500	500	1	900	2	2,700	8	4,300	11	15,750	39	24,150	24,150	61
501-1,000	1,200	2	4,500	6	8,060	10	6,950	9	54,750	67	75,460	76,310	94
1,001-2,500	1,875	1	7,143	5	3,050	2	12,307	9	47,900	26	72,275	74,740	43
2,501-5,000	0	0	14,882	5	0	0	12,818	5	53,700	14	81,400	89,800	24
5,001-40,000	28,857	2	0	0	0	0	12,429	2	46,000	4	87,286	129,500	8
Total (amts due)	32,432	6	27,425	18	13,810	20	48,804	36	218,100	150	340,571	-	230
% of total	9.5	2.6	8.1	7.8	4.1	8.7	14.3	15.7	64.0	65.2	100.0	-	100.0
Total (loan disburse-ments)	65,100	6	32,230	18	13,810	20	65,260	36	218,100	150	-	394,500	230
% of total	16.5	2.6	8.2	7.8	3.5	8.7	16.5	15.7	55.3	65.2	-	100.0	100.0

One U.S. Dollar = two Honduran Lempiras

[a]Lempira values in the table are loan disbursements. They are the same as the loan authorization values of Table 7a because all cattle loans were completely drawn down. For active loans, lempira values are amounts due rather than total loan disbursement--but the loan is classified by size according to disbursed value. In August 1975, 8.7% of the cattle loans and 30.5% of their value were still active. The second total row and column, and the second percentage row, show what values would be if total amounts were used for active loans instead of just the amounts already fallen due.

Source: Based on data from 018 loan files of La Playa Branch, August 1975.

Table 9

La Playa Branch: Repayment by Loan Size for 018 Grains Loans, Master Table[a]
(lempiras)

Loan-size class	Never paid		Partially delinquent		Late but paid		Paid or paying on time		Paid in advance		Total	
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Amount due	No.
100-500	6,156	20	5,588	15	21,500	59	2,080	6	2,300	6	37,624	106
501-1,000	4,440	7	4,950	8	27,985	42	7,390	11	3,565	6	48,330	74
1,001-2,500	4,130	3	6,819[b]	4	16,025	12	1,050	1	1,540	1	29,564	21
2,501-5,000	7,482	2	-	-	9,315	3	-	-	-	-	16,797	5
5,001-40,000	-	-	-	-	-	-	6,295[c]	1	1	1	6,295	1
Total (amts.due)	22,208	32	17,357	27	74,825	116	16,815	19	7,405	13	138,610	207
% of total	16.0	15.5	12.5	13.0	54.0	56.0	12.1	9.2	5.3	6.3	100.0	100.0

One U.S. Dollar = two Honduran Lempiras

[a] Lempira values in the table are loan disbursements. To the extent that they differ from the loan authorization values of Table 7a, they were not fully drawn down. Only 3.6% of grain loans were not drawn down. There were no active grain loans except for the one described in note c.

[b] A loan for L.1,800 was excluded for lack of delinquency data.

[c] This is the amount due on a L.11,000 loan. The loan represents 7.8% of the total grain portfolio. Using total loan disbursements rather than amounts due would change the "Paid on Time" percentage to 15%.

Source: 018 loan files of La Playa Branch, August 1975.

Table 10

La Playa Branch: Summary Repayment Picture for Cattle and Grains[a]

Repayment category	Cattle: % of total loans, Amts. due	Cattle: % of total loans, Total loan	Cattle: % of total loans, No.	Grains: % of total loans, Value (amts.due)	Grains: % of total loans, No.
Never paid	9.5	16.5	2.6	16.0	15.5
Partially delinquent	8.1	8.2	7.8	12.5	13.0
Subtotal delinquent	17.6	24.7	10.4	28.5	28.5
Late but paid	4.1	3.5	8.7	54.0	56.0
Paid on time	14.3	16.5	15.7	12.1	9.2
Paid in advance	64.0	55.3	65.2	5.3	6.3
Subtotal paid	82.4	75.3	89.6	71.4	71.5

Loan-size category[b]	Cattle: % share of class in total delinquency, Value	Cattle: % share of class in total delinquency, No.	Cattle: Delinquency as % of loans of each class, Value	Cattle: Delinquency as % of loans of each class, No.	Grains: % share of class in total delinquency, Value	Grains: % share of class in total delinquency, No.	Grains: Delinquency as % of loans of each class, Value	Grains: Delinquency as % of loans of each class, No.
100-500	2.3	12.5	5.8	4.9	29.7	59.3	31.2	33.0
501-1,000	9.5	33.3	7.6	8.5	23.7	25.4	19.4	20.3
1,001-2,500	15.1	25.0	12.5	14.0	27.7	11.9	37.0	33.3
2,501-5,000	24.9	20.8	18.3	20.8	18.9	3.4	44.5	40.0
5,001-40,000	48.2	8.3	33.1	25.0	0	0	0	0

[a] Based on Tables 8 and 9.

[b] Loan values of this section on which percentages are based are amounts due for active loans and not total loan disbursement. "Delinquency" is defined as loans which are now partially delinquent or on which payment was never made. Loans which are fully paid but were once delinquent ("late but paid") are not counted.

Table 11

La Playa Branch: Paid Percentage of Delinquent 018 Loans[a]
(lempiras)

	Cattle				Grains			
	Value		No.		Value		No.	
Percent paid	Lempiras	% of total dlq.	No.	% of total dlq.	Lempiras	% of total dlq.	No.	% of total dlq.
0%	32,432	54.2	6	25.0	22,208	56.1	32	54.2
1-25%	3,500	5.8	2	8.3	6,569	16.6	8	13.6
26-50%	6,768	11.3	5	20.8	4,038	10.2	8	13.6
51-75%	13,757	23.0	9	37.5	4,725	11.9	6	10.2
76-99%	3,400	5.7	2	8.3	2,025	5.1	5	8.5
Total	59,857	100.0	24	100.0	39,565	100.0	59	100.0

One U.S. Dollar = two Honduran Lempiras

[a]Values in table are not repayments but total loan disbursements; for active loans, they are amounts due. No data was collected on interest payments.

Source: 018 loan files of La Playa Branch, August 1975.

Table 12

La Playa Branch: Unpaid Amounts of Delinquent Loans by Loan Size
(lempiras)

Loan-size category	Cattle: Unpaid amounts: Value	Cattle: Unpaid amounts: % of total	Cattle: Value of dlq.loans	Cattle: Unpaid amts. as % of dlq. loan value	Grains: Unpaid amounts: Value	Grains: Unpaid amounts: % of total	Grains: Value of dlq.loans	Grains: Unpaid amts. as % of dlq. loan value
200-500	717	1.6	1,400	51.2	8,917	27.4	11,744	75.9
501-1,000	3,438	7.6	5,700	60.3	7,385	22.7	9,390	78.6
1,001-2,500	5,018	11.2	9,018	55.6	8,713	26.8	10,949	79.6
2,501-5,000	6,898	15.4	14,882	46.4	7,482	23.0	7,482	100.0
5,001-40,000	28,857	64.2	28,857	100.0	0	0	0	0
Total	44,928	100.0	59,857	75.1	32,496	100.0	39,565	82.1

One U.S. Dollar = two Honduran Lempiras

[a]Unpaid amounts do not include interest payment, on which I collected no data. Value of delinquent loans is amount drawn down; in the case of active loans, it is amount due and not total loan value.

Source: 018 loan files of La Playa Branch, August 1975.

Table 13

La Playa Branch: Summary Comparison of Delinquency in Cattle and Grains by Loan Size[a]
(percentages)

Loan-size class	% share of class in total dlq. loan value		Dlq. loan value as % of loan value in each class		% share of class in total unpaid amounts		Unpaid amounts as % of dlq. loan value in each class	
	Cattle	Grains	Cattle	Grains	Cattle	Grains	Cattle	Grains
100-500	2.3	29.7	5.8	31.2	1.6	27.4	51.2	75.9
501-1,000	9.5	23.7	7.6	19.4	7.6	22.7	60.3	78.6
1,001-2,500	15.1	27.7	12.6	37.0	11.2	26.8	55.6	79.6
2,501-5,000	24.9	18.9	18.3	44.5	15.4	23.0	46.4	100.0
5,001-40,000	48.2	0	33.1	0	64.2	0	100.0	0
Total	100.0	100.0	17.6	28.5	100.0	100.0	75.1	82.1

[a]Based on Tables 10 and 12.

Table 14a

La Playa Branch: Delinquency Values According to Different Measures, Master Table[a]
(lempiras)

Delinquency measure	Value of delinquent loans				Total loans			
					Cattle		Grains	
	Value	No.	Value	No.	Value	No.	Value	No.
1 - Includes late-paid loans (for active loans, total loan values, not amounts due)	111,140	44	114,390	175	394,500	230	143,315	207
2 - AID measure (for active loans, total loan values, not amounts due); late-paid loans excluded from this and successive measures	97,330	24	39,565	59	394,500	230	143,315	207
3 - My measure (for active loans, amounts due, not total loan values)	59,857	24	39,565	59	340,571	230	138,609	207
4 - BNF measure (includes only inactive loans)[b]	17,080	13	39,564	59	274,140	210	132,315	206
5 - Active loans only (total loan values, not amounts due - AID measure)	80,250	11	0	0	120,360	20	11,000	1
6 - Active loans only (amounts due, not total loan values - my measure)	42,777	11	0	0	67,145	20	6,295	1

[a]Values are loan disbursements and not authorizations, except in cases indicated where they are only amounts due. Does not include delinquency on interest payments. Delinquency percentages presented in following table.

[b]See footnote b on Table 14b.

Table 14b

La Playa Branch: Delinquency Percentages of 018 Portfolio According to Different Measures[a]
(percentages)

Value of delinquent loans ÷ value of total loans	Delinquent loans ÷ total loans					
	Cattle		Grains		Total portfolio	
	Value	No.	Value	No.	Value	No.
1 - Includes late-paid loans (for active loans, total loan values, not amounts due)	28.2	19.1	79.8	84.5	41.9	50.1
2 - AID measure (for active loans, total loan values; late-paid loans excluded from this and successive measures)	24.7	10.4	27.6	28.5	25.4	19.0
3 - My measure (for active loans, amounts due, not total loan values)	17.6	10.4	28.5	28.5	20.7	19.0
4 - BNF measure (includes only inactive loans)[b]	6.2	6.2	29.9	28.6	13.9	17.3
5 - Active loans only (total loan values, not amounts due - AID measure)	66.7	55.0	0.0	0.0	66.7	55.0
6 - Active loans only (amounts due, not total loan values - my measure)	63.7	55.0	0.0	0.0	63.7	55.0

[a]Based on data from Table 14a.

[b]AID documents citing BNF data refer to delinquency as amounts unpaid divided by amounts due, which would include active loans. At the branch bank at which I collected data, however, delinquent loans were not counted as delinquent until final payments had fallen due. Delinquency, then, would only count inactive loans. I was not able to verify whether this was general BNF policy.

Tables 15-16

La Playa Branch: Delinquency Ratios by Size of Loan for Cattle and Grains[a]
(ratios)

Loan-size class	(% of class in value of dlq. loans)[b] ÷ (% of class in value of all loans)		(% of class in value of unpaid amts)[c] ÷ (% of class in value of all loans)[b]		(% of class in no. of dlq. loans)[b] ÷ (% of class in total no. of loans)	
	Cattle	Grains	Cattle	Grains	Cattle	Grains
100-500	0.32	1.10	0.22	1.01	0.47	1.16
501-1,000	0.43	0.68	0.34	0.65	0.81	0.70
1,001-2,500	0.71	1.30	0.53	1.26	1.34	1.18
2,501-5,000	1.04	1.56	0.64	1.90	2.00	1.41
5,001-40,000	1.88	0.0	2.51	0.0	2.37	0.0

[a]Delinquent values and total loan values for active loans are based on amounts due. Otherwise, loan values are amounts drawn down.

[b]Based on data from Tables 8 and 9.

[c]From Table 12.

Table 17

La Playa Branch: Change in Delinquency Percentage When Large Loans Classes Excluded, for Cattle and Grains[a]
(percentages)

Number of loan-size classes	(Value delinquent loans) ÷ (total loan value)		(Value of unpaid amounts) ÷ (total loan value)		(Number of delinquent loans) ÷ (total number loans)	
	Cattle	Grains	Cattle	Grains	Cattle	Grains
1 - all classes	17.6	28.5	13.2	23.4	10.4	28.5
2 - excluding largest class	12.2	29.9	6.3	24.6	9.9	28.6
3 - excluding two largest classes	9.4	27.8	5.3	21.7	8.6	28.4
4 - excluding three largest classes	7.1	24.6	4.2	19.0	7.1	27.8

[a]Percentages based on raw data from Tables 7a, 8, 9 and 12. Both delinquent value <u>and</u> loan value are excluded when a class is eliminated.

Table 18

La Playa Branch: Grains Delinquency in Drought Years (1971-1972) and Good Year (1973) by Size of Loan[a]
(lempiras)

Loan-size class	Value of dlq. loans[b]		Value of late-paid loans		Total loan value		% of class in total dlq. value		% dlq. loans in loan value of the class	
	Drought	Good	Drought	Good	Drought	Good	Drought	Good	Drought	Good
100-500	9,274	1,110	19,270	2,230	32,674	4,290	29.7	15.9	28.4	25.9
501-1,000	7,290	2,100	19,900	8,085	35,730	12,600	23.4	30.0	20.4	16.7
1,001-2,500	7,169	3,780	13,150	2,875	20,319	9,245	23.0	54.1	35.3	40.9
2,501-5,000	7,482	0	3,000	6,315	10,482	6,315	24.0	0	71.4	0
5,001-40,000	0	0	55,320	0	11,000	0	0	0	0	0
Total	31,215	6,990	55,320	19,505	110,205	32,450	100.0		28.3	21.5
% dlq. loans in total	28.3	21.5	50.2	60.1						

One U.S. Dollar = two Honduran Lempiras

[a]Drought year includes loans authorized from 8/70 through 7/72. Good year is from 8/72 through 12/72. (No loans authorized after that.) Two loans were eliminated from this survey as authorization date was not entirely clear; one was a delinquent L.160 loan; the other was a L.500 loan which was not delinquent but figures in total value.

[b]"Delinquent" is never-paid and partially-delinquent loans.

Source: Based on data from 018 loan files of La Playa Branch, August 1975.

Table 19

La Playa Branch: Grain Delinquency Ratios in Drought Years (1971-1972) vs. Good Year (1973) by Size of Loan[a]

Loan-size class	(% of class in value of dlq. loans) ÷ (% of class in total loans)		Unpaid amts. (lempiras)		(% of class in total unpaid amts.) ÷ (% of class in total loans)		No. of dlq. loans		Total no. of loans		(% of class in no. dlq. loans) ÷ (% of class in total no. of loans)	
	Drht	Good	Drht	Good	Drht	Good	Drht	Good	Drht	Good	Drht	Good
100-500	1.00	1.20	7,524	885	0.97	1.16	27	4	92	12	1.08	1.30
501-1,000	0.72	0.77	5,981	1,404	0.70	0.63	11	4	52	22	0.78	0.71
1,001-2,500	1.25	1.90	5,239	3,474	1.09	2.12	4	3	14	7	1.06	1.67
2,501-5,000	2.53	0	7,482	0	3.00	0	2	0	3	2	2.50	0
5,001-40,000	0	0	0	0	0	0	0	0	1	0	0	0
Total			26,226	5,762			44	11	162	43		

[a]Delinquency comprises never-paid and partially delinquent loans; it does not include delinquent loans that were ultimately paid (see previous table for information on the latter). Drought-year loans authorized 8/70 through 7/72 and good-year loans authorized 8/72-12/72.

Source: Based on data from 018 loan files of La Playa branch and Table 18.

Table 20

La Playa Branch: Largest 30 Loans of 018 Portfolio, Ranked by Size

Rank of loan by size	Amount[a]	% total credit	Activity[b]	Uses	Amt. of guarantee	Loan period	Delinquency			Hectareage[e]
							Amount[c]	Last paymt date	% dlq.[d]	
*1	40,000[f]	7.4	D	20,000-cows 10,000-pasture 6,000-fencing 4,000-machinery	154,400	3/72-3/79	17,143		100.0	300
*2	20,500[g]	3.8	D	n.a.	47,040	12/70-12/77	17,714	never	100.0	200
*3	15,000	2.8	D	9,000-cows, calves 2,200-brdg bulls 3,800-pasture, eqp,constr.	n.a.	11/71-11/76	0	11/74	0	250
*4	15,000	2.8	D	n.a.	n.a.	6/71-6/75	10 mos.	8/74	0	n.a.
*5	15,000	2.8	D	n.a.	n.a.	6/72-6/76	20 mos.	10/74	0	n.a.
*6	11,000[h]	2.0	C	11,000-machinery	51,150	2/71-2/78	0	7/75	0	320
*7	10,000	1.8	B	n.a.	n.a.	10/71[i]	3 mos.	7/72	0	n.a.
*8	8,000	1.5	B	n.a.	41,000	8/71-8/78	adv.	11/73	0	n.a.
9	6,520[j]	1.2	C	n.a.	n.a.	1/72-6/72	4,090	never	100.0	n.a.
10	6,000	1.1	D	2,000-cows 4,000-pasture	n.a.	8/70-8/73	10	10/72	0	n.a.
*11	5,000	0.92	D	5,000-pasture	57,600	7/72-7/79	adv.	1/75	0	225
*12	5,000	0.92	D	2,000-cows 500-fencing 2,500-pasture	11,200	12/70-12/77	714	10/73	25.0	250

Table 20 (continued)

Rank of loan by size	Amount	% total credit	Activity	Uses	Amt. of guarantee	Loan period	Delinquency: Amount	Delinquency: Last paymt date	Delinquency: % dlq.	Hectareage
13	5,000	0.92	D	n.a.	n.a.	8/70-8/74	14 mos.	6/73	0	n.a.
14	5,000	0.92	D	n.a.	n.a.	8/70-8/74	2 mos.	6/74	0	n.a.
15	4,700	0.86	D	500-cows 3,200-pasture	n.a.	3/71-3/75	29 mos.	10/72	0	n.a.
16	4,500	0.83	D	n.a.	n.a.	5/72-5/75	16 mos.	1/74	0	n.a.
17	4,142[k]	0.76	C	3,533-corn 326-beans 283-rice	n.a.	4/72-4/73	3,391.50	never	100.0	n.a.
*18	4,000	0.74	D	n.a.	n.a.	11/71-11/75	362	11/72	12.1	150
19	4,000	0.74	D	2,000-cows 2,000-pasture	7,250	3/72-3/75	1,963	3/74	49.1	n.a.
20	4,000	0.74	D	2,000-cows 2,000-pasture	n.a.	8/70-8/73	9 mos.	11/72	0	n.a.
21	4,000	0.74	D	n.a.	n.a.	8/70-8/75	28 mos.	4/73	0	n.a.
22	4,000	0.74	D	n.a.	n.a.	10/70-10/74	14 mos.	8/73	0	n.a.
23	4,000	0.74	D	n.a.	n.a.	2/71-2/75	22 mos	4/73	0	n.a.
24	3,690	0.68	C	n.a.	n.a.	1/73-6/73	(9mos.)	3/74	0	n.a.
*25[l]	3,500	0.64	D	500-brdg bulls 2,100-pasture 900-work.anim.	5,110	1/71-1/75	875	6/74	25.0	90

Table 20 (continued)

Rank of loan by size	Amount	% total credit	Activity	Uses	Amt. of guarantee	Loan period	Delinquency Amount	Late paymt date	% dlq.	Hectareage
26	3,500	0.64	D	n.a.	n.a.	1/72-1/76	30 mos.	6/73	0	n.a.
27	3,100	0.57	B	2,100-constr. 500-brdg bulls 500-pasture	n.a.	6/72-6/76	1,496	6/75	48.3	n.a.
*28	3,000	0.55	D	500-fencing 500-pasture 2,000-cows	n.a.	3/72-3/76	0	2/75	0	50
29	3,000	0.55	C	n.a.	n.a.	12/70-12/74	25 mos.	11/72	0	n.a.
30	3,000	0.55	D	n.a.	n.a.	11/70-11/73	0	n.a.	0	n.a.

	Amount	% total credit	% total no. of loans
Totals:	227,152	42.0	6.9

One U.S. Dollar = two Honduran Lempiras

[a]Amount of the loan authorization. Loans described in the text are asterisked.

[b]B = breeding cattle, C = corn, D = dairy cattle.

[c]Value of the unpaid amount. If loan is fully paid but was previously delinquent, number in parentheses in column is the number of months delay in final payment after due date. If loan was paid in advance number in column is number of months before due date that loan was paid. If loan is still active and is being paid in advance, column entry is "adv."

[d]Unpaid amount as % of amount fallen due.

Table 20 (continued)

[e]Is size of borrower's total property, as estimated by extension agents.

[f]Recipient was merchant in La Playa; properties affected by agrarian reform.

[g]Recipient was medical doctor.

[h]Recipient was medical doctor and owner of large commercial establishment in La Playa.

[i]Renewable on a yearly basis.

[j]Amount disbursed was L.4,090.

[k]Amount disbursed was L.3,391.50.

[ℓ]Recipient of IBRD cattle loan.

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Table 21

La Playa Branch:
Distribution of Late-Paid Grain Loans by Length of Delay[a]

	Late-paid loans			
	Value[b]		Number	
Length of delay (months)	Lempiras	% of total	No.	% of total
1-3	30,420	40.6	52	44.8
4-6	13,965	18.7	22	19.0
7-9	11,960	16.0	17	14.7
10-12	9,180	12.3	13	11.2
13-29	9,300	12.5	12	10.3
Total	74,825	100.0	116	100.0

One U.S. Dollar = two Honduran Lempiras

[a]"Late-paid loans" are those which have been fully repaid with some delay.

[b]Value is authorized amount of loan, not amount drawn down.

Source: Based on data from 018 loan files of La Playa Branch, August 1975.

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Table 22

La Playa Branch: Landholding Size of Some 018 Livestock Borrowers[a]

Landholding size (hectares)	Value of loans (lempiras)	Number of loans
0-5	0	0
5-20	800	1
20-50	11,930	8
50-100	5,500	3
100-250	94,410	8
Total	112,640	20

One U.S. Dollar = two Honduran Lempiras

[a]This is not a random sample. It was obtained by asking extension agents to identify property size of a number of borrowers.

Table 23

La Playa Branch: Repayment Picture for Active 018 Cattle Loans

Repayment category	Value of loans[a]		No. of loans	
	Lempiras	% of total	No.	% of total
Never paid	31,182	46.4	4	20.0
Partially delinquent	11,595	17.3	7	35.0
Subtotal delinquent	42,777	63.7	11	55.0
Paying on time	16,725	24.9	6	30.0
Paying in advance	7,643	11.4	3	15.0
Total	67,145	100.0	20	100.0

One U.S. Dollar = two Honduran Lempiras

[a]Values are based on amounts unpaid or amounts fallen due and not on total loan value.

Source: Based on data from 018 loan files of La Playa Branch, August 1975.

Table 24

La Playa Branch:
Time Distribution of Advance Payment on 018 Cattle Loans

Time paid in advance (no. of mos.)	Loans paid in advance			
	Value of loans[a]		No. of loans	
	Lempiras	% of total	No.	% of total
1-6	52,700	24.2	56	37.3
7-12	64,600	29.6	41	27.3
13-24	72,800	33.4	37	24.7
25-42	28,000	12.8	16	10.7
Total	218,100	100.0	150	100.0

One U.S. Dollar = two Honduran Lempiras

[a]Value is amount of loan authorization.

Source: Based on data from 018 loan files of La Playa Branch, August 1975.

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Table 25

La Playa Branch: Advance Payment vs. Delinquency by Size of Loan for 018 Cattle Loans

Loan-size class	Advance payment[a]				Delinquency[a]				Ratios			
	Value		Number		Value		Number		(% of class in value of adv.-paid or dlq. loans) ÷ (% of class in value of all loans)[b]		(% of class in no. of adv.-paid or dlq. loans) ÷ (% of class in total no. of loans)[b]	
	L.	% of total	L.	% of total	L.	% of total	L.	% of total	Advance	Delinquent[c]	Advance	Delinquent[c]
200-500	15,750	7.2	39	26.0	1,400	2.3	3	12.5	1.01	0.32	0.98	0.47
501-1,000	54,750	25.1	67	44.7	5,700	9.5	8	33.3	1.13	0.43	1.09	0.81
1,001-2,500	47,900	22.0	26	17.3	9,018	15.1	6	25.0	1.04	0.71	0.93	1.34
2,501-5,000	53,700	24.6	14	9.3	14,882	24.9	5	20.8	1.03	1.04	0.89	2.00
5,001-40,000	46,000	21.1	4	2.7	28,857	48.2	2	8.3	0.82	1.88	0.77	2.37
Total	218,100	100.0	150	100.0	59,857	100.0	24	100.0				

One U.S. Dollar = two Honduran Lempiras

[a]From Table 8.

[b]Based on data from Table 8.

[c]From Tables 15 and 16.

Table 26

La Playa Branch: Comparison of Dairy and Beef Cattle Credit by Size of Loan (percentages)[a]

Loan-size class	Loan disbursements (% of each class in total)				Delinquent loans (% of each class in total)					
	Lempiras		No. of loans		Value (L)		No. of loans		Unpaid amts.	
	Dairy	Beef	Dairy	Beef	Dairy	Beef	Dairy	Beef	Dairy	Beef
200-500	6.0	6.6	26.6	27.0	1.2	0	11.5	0	0.8	0
501-1,000	19.3	19.9	41.7	35.1	5.2	10.7	30.8	33.3	3.0	17.0
1,001-2,500	17.4	27.5	17.7	24.3	8.9	6.9	23.1	16.7	6.8	8.3
2,501-5,000	24.1	14.8	10.9	8.1	20.8	34.6	23.1	33.3	11.3	45.3
5,001-40,000	33.1	31.0	3.1	5.4	64.0	47.8	11.5	16.7	78.0	29.3

[a]Data include 192 dairy-cattle loans for L.336,840 and 37 beef cattle loans for L.58,060.

Source: Based on data from 018 loan files, La Playa Branch, August 1975.

INTER-COUNTRY EVALUATION OF SMALL FARMER ORGANIZATIONS: HONDURAS

V - What Happens in an Agrarian Reform

Judith Tendler

October 1976

For Office of Development Programs of the Latin America Bureau of A.I.D.

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V - What Happens in an Agrarian Reform

The above discussion of the National Development Bank (BNF) focused on what happens to a small farmer program in a large borrower bank. In this section, the discussion moves to the interactions between public sector institutions in agriculture, like the BNF--and the involvement of these agencies in both the AID sector loan and the agrarian reform.

Agrarian reform looks like a decision, an act, an event that is defined in time by the moment the reform decree is issued. But it is really a process that goes on for several years, and not a discrete happening. The issuance of the reform decree is only a milestone. After this, the reform can be slowed down, heightened, stopped altogether, or reversed. This will depend on the changing relative power of pro- and anti-reform forces within the government, as well as without.

The population of the government agencies of a country is a microcosm of the population at large; it contains the same opposing sides on various political issues. It is only natural that some of the government institutions dealing with agriculture, or some individuals within them, will not particularly like an agrarian reform. These individuals or institutions will not necessarily couch their dislike in terms of official opposition. But myriad opportunities will arise in the course of implementing their programs to not help the reform. They can drag their feet on the execution of orders, as in the above story of BNF slowness to help measure lands for forced rental under Decree 8. Or they can enforce the letter of the regulations by which they operate, to the point of going against the spirit of the reform, as in the story of the attached tractor above.

An agrarian reform is never looked at as a *fait accompli* by those who oppose it and by those who favor it. It is always perceived as being up for grabs. Those who do not like the reform are ever-vigilant of the possibility of undoing it, with the right combination of groups and pressures. The agrarian reform decree, then, does not mark the climactic ending of a long period of turbulence and the beginning of a calmer period of implementation tasks. It marks the beginning of a different kind of struggle-- in some ways, a more intense one. Opposition groups, which previously might have felt that "the inevitable" could never happen, now have something concrete to fight against. To them, the decree means not that the battle has been lost, but that it has begun. Thus the government committed to an agrarian reform has two difficult and demanding tasks: (1) carrying out the reform and servicing the post-reform groups, and (2) fending off the forces of opposition.

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Polarization in the Public Sector

The implementing of agrarian reform legislation places new demands on government agencies, requires that they do things differently, and jostles the balance of power between them. They get put to work for the reform. Before the reform, indifference or even dislike for the idea may have been irrelevant to the work of these offices or individuals within them. But the demand that they work for the reform after its passage into law brings them much closer to it. In this kind of situation, indifference or armchair dislike can be transformed into anti-reform behavior. The situation is analogous for someone who is sympathetic to the idea of reform and works in an implementing agency. For this person, carrying out one's job suddenly turns into putting oneself on the line for the reform. Some agronomists in the Ministry of Natural Resources, who worked closely with the new post-reform groups, received ultimatums from large farmers: either they "stop working for the reform" or there would be reprisals against them and their families. To carry out one's job during the implementing stage of a reform, then, can become a difficult and ethical choice.

After passage of an agrarian reform law, the turbulence spreads from the countryside, in a sense, into the institutions of the public sector--the state banks, the extension services, the agrarian reform agencies, the ministries of agriculture. In the government office where you work, you are either for the reform or against it. Likewise with your superiors. Or, you are in favor of the reform, but very much against the way it is being done--a common stance in the Honduran public sector. In the hands of a government agency, this kind of disagreement can frequently have the same effect on the course of the reform as opposition to it.

The implementation demands of a reform, then, force a polarization of attitudes and feelings within the public sector itself. Those who do not like the reform will often refer freely to their pro-reform government colleagues as communists and power-mongers. Those who support it will characterize their opposites as reactionaries and sellouts. During these highly politicized times in the public sector, the normal approach to development projects may not work well. I return to this point below.

Shaking Up the Balance of Power

An agrarian reform usually brings with it a change in the relative power of government agencies. This heightens the polarization discussed above. Compared to the other government agencies in agriculture, for example, the National Agrarian Institute of Honduras (INA) was relatively weak in the 1960s.[1] The agrarian reform decree of December 1972, however, brought INA to the forefront. In 1973, the first year of the reform, the Institute's internal budget resources increased by 85% (Table 1). INA was given substantial power by Decree 8, moreover, to take land in "forced rental" for peasant groups and, later, to expropriate. It was to decide who would get land and who would be eligible for the US$2 million of credit that the government was channeling through the BNF to the reform groups. This sudden stardom for the agrarian reform agency may explain why such institutions are sometimes over-zealous, arrogant and defensive--or, at the least, are commonly criticized for being so. Even the sponsoring government sometimes comes to dislike the signs of strength displayed by its newly empowered agency, and clips its wings. This was one of the reasons for the forced resignation of INA's director in late 1975.

The new power of INA meant a relative decline in the

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[1] There was a short period during 1969 and 1970 when a variety of circumstances, including a vigorous director, gave the agency more power than usual.

power of the National Development Bank and the Ministry of Natural Resources. Whereas the Ministry's budget was three times that of INA's in the 1960s, INA surpassed the Ministry in 1973 (Table 1).[2] This relative decline in power did not mean that there was a decline in the resources available to these two institutions. The reform had brought increases in the domestic and foreign resources to be channeled through these institutions to agriculture. As Table 1 shows, the budget of the Ministry of Natural Resources had been declining slightly from 1969 through 1972. In 1973, however, it jumped by 43% and, in 1974, by another 48%. But these institutions now had to share more of their power over what happened in the agricultural sector with the newly strengthened INA. This situation alone was sufficient for them to experience discomfort over the agrarian reform--regardless of their position on reform itself. The discomfort was often expressed as dislike for INA and its technicians, rather than as a disapproval of agrarian reform. Foot-dragging on an INA program, however, could be tantamount to foot-dragging on the reform.

The process of implementing an agrarian reform, then, can be seen as a race against time. One has to insure the program

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[2] In 1974, the Ministry regained its lead with a budget 41% greater than INA, whose total budget actually underwent a small decline. I do not know the reasons for this change.

against the powerful opposition of groups with land to lose and, just as relevant to AID programming, against the obstreperousness that will arise in the public sector itself. A period of such polarization in the public sector may not be the best time to execute a program that, like the AID sector loan, depends for its success on considerable inter-agency coordination.

Government Protection Against Its Agencies

How does an agrarian reform government protect its reform from the opposition that can well up out of its own agencies? One way to do this is to empower a single institution as the reform-committed one. Its personnel can be replaced or increased, and close attention paid to it, in a way that will guarantee its commitment to the reform. This may be the only way of getting a committed institution into the act on short notice. The other way for a government to insure this kind of commitment and cooperation from its public sector is to replace the personnel of all involved government agencies, or engage in a massive socialization program to change their commitments. INA is attempting some "conscientization" of its own and other government personnel through its PROCCARA program.[1] But this approach takes considerable time and resources. Wholesale replacement of personnel and a massive socialization program would amount to revolution.

The non-revolutionary reform government, then, is often stuck with the second-best solution to its commitment problem--that is, putting all its eggs into a single institutional basket. This may explain why agrarian reforms often confer sudden power on agrarian

[1] Programa de Capacitación Campesina para la Reforma Agraria. As can be seen from this title, the training includes peasants as well as government technicians.

reform agencies that were previously weak and small. The past inactivity and smallness of these latter institutions make for a relatively easy and rapid re-doing, through an overwhelming injection of staff and resources. With the same amount of increased resources, it will be much more difficult to transform an active and powerful development bank or agriculture ministry.[2]

In order to survive, in sum, a reform-implementing government may have to neutralize the anti-reform feelings that pervade many government departments--and perhaps empower a single institution that can act fast and be relied upon. Again, this may not be the moment for a multi-organizational approach to foreign assistance: one does not want to give too much of the public sector action to wavering supporters of the reform. One does not want to demand the kind of coordination that makes supporters or beneficiaries of the reform dependent on the inputs of non-supporters. The fragility of the political balance that allows the reform decree to be issued cannot bear the weight of

[2] I do not know to what extent this transformation was accomplished with INA. As is frequently the case with such agencies, the Institute often took action on the side of the landowners in its pre-reform days--or, at the least, not in the interest of the peasants. Some peasant groups, when telling their histories, refer to the landowners and INA in the same breath. They have not had contact with the Institute's new incarnation; or if they have, they assumed or found it to be a continuation of the old.

an institutionally complex program. In a sense, one has to regress to a simpler organizational approach.

The coordination demands and technical complexity of the AID sector loan resulted to a considerable extent from AID's desire to support the reform as broadly as possible. It is ironic that the more supportive the AID response--more money, more programs, more agencies--the less suited it is for the agrarian reform environment. Not only will the AID program itself have difficult going but, as discussed below, the post-reform struggle to root the reform can actually be hurt by this kind of comprehensive approach.

AID's Sector Loan: Many Agencies and Diverse Beneficiaries

For various reasons unrelated to the considerations above, AID's approach to the Honduran agrarian reform was multi-institutional. Five government departments, not one, play important roles in AID's sector program--the National Development Bank, the Ministry of National Resources, the National Agrarian Institute, the National Planning Council and the Cooperative Department. Coordination between the departments was a primary requisite for satisfactory implementation of the program. In recognition of the difficulty of achieving such coordination, the Honduras Mission had "been collaborating with the Government of Honduras in this institution building task through grant assistance" since late 1972.[1] The most important results of AID's coordination assistance were the creation of (1) an Agricultural Sector Analysis group in the National Planning Council and (2) an Agriculture Sector Coordinating Committee. The latter was to make decisions of policy and budgetary allocation for agriculture at the ministerial level.

AID was fully aware of the "severe management constraints" involved in attempting such a coordination-intensive program in Honduras.[2] The Mission addressed considerable

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[1] U.S. Agency for International Development, Latin America Bureau, Office of Development Resources (AID/LA/DR), "Honduras - Agriculture Sector Program," Capital Assistance Paper, AID-DLC/P-2051, 14 June 1974, p. 139.

[2] Ibid.

attention to the problem in the sector program, and in a separate grant-funded project.[3] Despite this care and attention, the coordination demands of the loan program on the Honduran public sector may make it more difficult than necessary for the program to function well. The institutional complexity of the program may also carry the risk of adversely affecting the course of the agrarian reform. This is possible because AID's loan and grant funds are quite significant in relation to the Honduran budget for agriculture.[4] The way they are channeled, therefore, can bestow considerable institutional power. Before taking this point further, I want to explain why AID made the loan way it did.

The spreading of risk. The agriculture sector loan proposal first surfaced in September 1973 as a traditional "production loan" proposal for $9.6 million--including funds for a national cadaster,

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[3] The sector loan included $821,000 in AID funds for coordination, management, planning and evaluation. The complementary $2.9 million "Core Services" grant project also emphasized inter-agency coordination. U.S. Agency for International Development, Honduras Mission (AID/H), "Core Services - Rural Development," Noncapital Project Paper, PROP, 3 February 1975 (second revision).

[4] In 1974, the Honduran government committed $18.3 million to agriculture. This included $14.7 million to the Ministry of Natural Resources (of which $5 million was transferred to the BNF and INA) and $3.7 million to INA. The sector loan was $12 million, to be disbursed over a four-year period. AID/LA/DR, "Honduras: Agriculture Sector Program," Report for the Development Assistance Executive Committee, 21 February 1974, Annex A, pp. 3-5.

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production credit and technical assistance for citrus and potatoes, technical assistance for corn and beans, and credit for African palm oil processing equipment. The Intensive Review Request conveyed almost nothing of the radical changes in the government at the end of the preceding year, and the sweeping attempts to carry out an agrarian reform. Soon after, the reform was "discovered" by some enthusiasts in Washington and the Mission; with Washington-TDY assistance, the loan proposal was changed radically to one that would be directed primarily to the asentamientos. These were groups of peasant farmers who were settling on lands that were being "forcibly" rented for them by the National Agrarian Institute, under the authority of Decree 8 of December 1972.

There was considerable hesitancy by some in AID/Washington about making this kind of commitment. It was felt by some that the government of Honduras might be "proceeding too rapidly on an ambitious, untested, and risky undertaking"; that AID would "be vulnerable to criticism if we allocate almost $6 million to the project as currently designed."[6] There was concern that the agrarian reform law, which was then in the making, might not

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[5] AID/H, "Rural Sector Intensive Review Request (IRR)," DAEC/P-74/6, September 1973.

[6] U.S. Agency for International Development, Latin America Bureau, Office of Development Program (AID/LA/DP), "Honduras Agriculture Sector Loan," Memo to the Deputy U.S. Coordinator, 11 June 1974. Further cites in the paragraph are from this memo. The opposite position on this issue was expressed in another pair of memos, cited later in the text.

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"encourage or even permit a group to choose its own method of organizing the enterprise." The government was putting most of its emphasis and resources, that is, on communal farming. It was feared by AID that farmers who wanted to work and own land individually would not be allowed to do so, and that cooperatives --which pre-dated the reform and were different in structure from the asentamientos--would be neglected. Washington was hesitant, in short, to go all out for a government and its reform before it had more of a track record.

Washington's uneasiness was dealt with by "diversifying" the loan proposal somewhat out of the communally-farming asentamientos. Cooperatives and other associations were given a larger role. More emphasis was given to agricultural institutions outside the National Agrarian Institute--the Cooperative Department, the Ministry of Natural Resources, the National Development Bank, the National Planning Council. The number of asentamientos eligible for the AID credit was to be limited to a chosen 40 out of 600--a point I return to later. The loan funds, in sum, were extended beyond the agrarian reform to a larger universe of farmer groups and implementing institutions, so as not to invest too hastily and heavily in an unproven political undertaking. By limiting the number of post-reform groups to be serviced, hand-picking the best ones, and providing some of the credit to groups whose existence was not dependent on the reform--the Agency would be somewhat protected in case the whole reform effort collapsed. It was putting its eggs into several baskets.

Sector lending and filling gaps. Another reason for the multi-faceted nature of the 025 program was the popularity of sector lending in AID. Individual projects had to be presented and justified within the framework of a sector analysis or assessment, showing that the project fit compactly into a sector-wide setting. Modest projects with independent justifications did not fit well within this framework.

Analyzing a sector always reveals important gaps to be filled. When put in a sector context, for example, a plain and simple small farmer credit program reveals the absence of an adequate extension service or of the use of "modern methods" by farmers. The plain program becomes hard to justify without a companion program in a separate institution to provide extension service; or without added research in yet another institution to discover the modern inputs that would be most suitable for the new borrowers. As soon as one starts to fill these gaps, one cannot help but end up with more institutions and more things to do.

Sector lending and analysis has sometimes been dismissed by critics as a new literary setting for presentation of the same old projects. The original proposal for the Honduran sector loan, for example, was criticized in Washington for being comprised of "a series of discrete projects independently aimed at the [same] goal." Linkage between the projects, it was said, was "not clear."[7] Sector lending, whatever its faults or merits, also introduced or reinforced a tendency for rural development projects to work on all fronts at once.

Sector lending required considerable time to prepare sector assessments and justify individual projects in that analytic style. The AID Mission Director in Honduras, after pushing hard for AID support on the heels of Decree 8, expressed considerable frustration to Washington over this dilatory process. Honduras, he said, was "being treated like a Colombia or a Chile by the cult of sector analysis now the style-setters in AID/W[ashington]."[8] The sector approach, he said, had resulted in advisory visits from Washington economists, long drawn out econometric analyses of Honduran agriculture, the throwing out of previous work, the starting all over again. Meanwhile, time was being lost. "Honduras," he said, "is barren ground for this sort of effort, but I fear that we are becoming a test case in which the application of the sectoral treatment, and the consequent

[7] AID/LA/DR, "Issues Paper - Rural Sector IRR - Honduras," Memo to Deputy U.S. Coordinator, 23 March 1973, p. 1.

[8] AID/H, Letter of Mission Director to Deputy U.S. Coordinator of AID, 21 May 1973.

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reinforcement of the sectoral mystique, have become more important than the realities of the situation." Thirteen more months were still to pass before the sector loan was finally authorized.

Sector loans and their analyses were everything that an agrarian reform was not. They were diffused over a whole sector and its service institutions. They took lots of time to justify and to get going. Agrarian reform, in contrast, was forced to be intensely concentrated in time and institutions.[8a]

AID's past relations. There were other reasons why AID's post-agrarian-reform loan program proceeded on so many institutional fronts. One had to do with the history of its institutional relations in Honduras. Credit to the BNF played such a central role in the sector loan partially because of the pre-reform relations between AID and that institution. It was only natural that AID's first loan to the BNF in 1969 would have given that institution a strong "incumbent" status as candidate for a major role in a second loan.

The Ministry of Natural Resources (MRN) had had an even longer history of relations with U.S. assistance programs, though not of the financial magnitude of those with the BNF. Since the 1950s, the Honduran extension service had been included in the Point Four-USDA program for creating agricultural extension services in Latin

[8a]The sector "assessment" rather than "analysis" was used in the Honduran case. The assessment is a less formal evaluation than the analysis, and is thus somewhat less time-consuming.

America. There was always some program or another of this nature in the Ministry of Natural Resources. First it was the "servicio"; then it was the difficult transition of this service to full-fledged adoption by its ministry; then it was the beefing up of the service after it was absorbed by an accepting but resource-poor ministry; then it was the re-tooling of extension agents from large-farmer activities to small-farmer ones, during the period that the 018 loan attempted to help the BNF make the same kind of change. The Ministry of Natural Resources, then, was also a good candidate for an important institutional role in the sector loan, based on its "incumbency status" with AID. It was only natural that the daily relations of AID program implementation would have led to the discussion of desirable future projects, and their inclusion in the sector loan.

The Mission, like anyone else, viewed the role of these two entities in the sector loan as the natural institutional way to carry out such a program--and not a matter of choice based on past relationships. But such programs are described by AID as instruments for assisting the small farmer--as rural development programs meant to alleviate the unequal distribution of income and resources in the countryside. When one thinks of an institution that will serve this purpose rather than supply a specified service, one is less likely to come up with a BNF and an MRN as "natural" candidates--

precisely <u>because</u> of their histories, which were not very involved with the kinds of farmers benefited by the agrarian reform.

The BNF and the MRN, then, ended up as the principal actors in AID's program of support for the Honduran agrarian reform, partly because they were the primary institutions with which AID had had relations before the reform. During a reform, however, institutional power in the public sector gets shaken up and, as noted above, a less powerful institutional actor often gets pushed to the forefront. By investing considerable monies and powers in an institution with little past history of power, the reform government leaves the powerful institutions in agriculture somewhat on the side. AID should be able to follow suit. Its support for a reform should reflect this shakeup.

Agrarian reform involves a disruption on several fronts in the way things are done. This is how a reform achieves its objectives. In order to keep up with such a process, AID has to experience the same disruption in its institutional relationships. This is not to say that it must cut off relations with the institutions with which it was involved. Rather, its program should reflect the new balance of power in the public sector, with the most important institution of the reform period as the key actor in the program. The other institutions should have relatively less power in AID's program--or, perhaps, none at all.

Agencies like the Cooperative Department, that are left completely aside by the reform government, should also be left aside for the moment by AID.[9] Decisions about institutional channels of support to an agrarian reform, in sum, should not necessarily be based on the existence of solid pre-reform relations between AID and the institution.

It was easier for AID to continue its predominant relations with the BNF and MRN, instead of starting almost from scratch with an unknown entity, as had to be done with INA. An AID Mission agronomist, upon ending his Honduran tour of duty in 1967, wrote that "ideal working relationships have been established with DESARRURAL [the extension service of the Ministry of Natural Resources] and the National Development Bank."[10] At the same time, he noted the absence of a relationship with the agrarian reform agency, recommending

> that a more than casual interest be directed toward the National Agrarian Institute (INA)...At the moment, it scarcely provides a handle to take hold of but it has such wide authority over public lands that recognition must be taken of its role in development and means to exploit effectively this authority must be searched for. Admittedly, there are built-in pitfalls in the legal framework of

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[9] This example is discussed in a separate section below.

[10] AID/H, "End-of-tour Report," Airgram TOAID A-355, 11 May 1967, p. 4.

> this agency, and it is by no means capable yet of dealing effectively with the myriad problems of land tenure, but some beginning must be made now.[11]

It is difficult for AID to shift gears suddenly, of course, and go institution-hopping. It might seem more efficient to re-direct one's existing relations with institutions toward reform-supporting programs. But there is considerable cost to this inaction about changing the institutions one has relations with. One inadvertently reinforces the pre-reform balance of public sector power, which the reform government is trying to change. AID thus makes it more difficult for the government to accomplish the shift of relative power from the less committed institutions to the committed.

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[11] Ibid., p. 8.

Inter-agency Coordination in Rural Development Projects

The multi-institutional approach of the sector loan, and its corresponding requisites for coordination between institutions, reflects a "coordination bias" in AID projects. Project problems are often diagnosed as resulting from "the lack of coordination" between agencies that service the same client or project. The failure of small farmer credit programs, for example, is often attributed to the inability of the credit institution to get together with the extension service to provide for guidance of the small farmer borrower. This was one of the problematic areas frequently referred to in evaluations of the first BNF loan.[1]

In justifying its technical assistance programs, AID often points to the absence of coordinated action between government agencies as a reason for inadequate performance by the public sector. In the Honduras sector loan program, for example, continued supervision by an AID-funded government coordinating committee was considered "necessary to insure that past institutional jealousies are removed and functional problems of the new programs are treated effectively and early."[2] After the

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[1] E.g., AID/H, "Estudio de evaluación del programa de crédito supervisado del Banco Nacional de Fomento," by Reinaldo W. Santos Santiago, USAID/ACDI-BNF, August 1972, p. 19, U.S. Agency for International Development, Office of the Auditor General, Area Auditor General - Latin America (North) (AID/AAG/LA), "USAID/Honduras, Agricultural Development (Credit and Extension)," Audit Report No. 1-522-74-4, Project No. 522-11-190-036.1, 31 July 1973, p. 8.

[2] AID/H, "Honduras: Agriculture Sector Program," Report for the Development Assistance Executive Committee, 21 February 1974, Annex A, p. 7.

completion of AID programs that include coordination aspects, moreover, the coordination problem is again cited frequently as a reason for inadequate project execution.

All this experience should perhaps be taken to mean that the problems of inter-agency coordination are more a constant of AID's project environments than a variable within project control. Coordination, that is, requires institutional behavior that does not come easy in the world of most AID projects or, in many cases, among the agencies of our own government. It may therefore burden a project excessively to require not only that it perform a certain task, but that it overcome inter-agency rivalries as well. To make a project dependent on coordination is, in many cases, to lessen considerably its chances for success.

<u>The machine analogy</u>. Like the sector loan approach, there is a somewhat machine-like conception of institutional development behind the emphasis on coordination. A multi-institutional approach to a problem, that is, is portrayed as being more complete because all the pieces are there. With a single institution, you leave out some of the pieces, some of the institutional potential in the public sector. Similarly with the sector loan concept: an across-the-sector approach is conveyed as more complete than a single project. The existence

of each part helps the other parts to do their work. In both the sector and the coordination approach, it is implicit that you are better off if you include more things. It is not only that the machine will work at a lower capacity with only one part--with only one project or one institution. It is that without all its parts, according to the analogy, the machine cannot work at all. I am saying, in contrast, that there is more chance that certain projects will work if they have fewer parts, or only one. The machine analogy, in short, is not applicable to these situations. It is not applicable because one part can work perfectly well on its own--in contrast to a machine. And the task of making one part work together with another is a gargantuan one--often more difficult and demanding than the project itself.

The inter-agency coordination problem in foreign assistance projects has become particularly apparent as a result of the recent emphasis on rural poverty and agriculture. In the days of transport and power projects, involving the construction of large physical structures, responsibility for successful completion of the project usually rested with one agency. Coordination with other departments may have been required at certain points, but it certainly was not crucial to making the project work. In the agriculture sector, in contrast, loan funds can rarely be tied to a physical structure; clients are served by a variety of government agencies, not one. As distinguished from transport and power, then, the technology of an agriculture program does not dictate that it be concentrated in one organization.

There is also no technological dictum that services to agricultural users are best provided out of various organizations rather than one. It is the concept of organizational specialization by function that has been behind the traditional approach of parcelling out such services to different organizations, according to their specialty. Concerns about "overlapping" also play a role in this concept. One institution, it is said, should not carry out tasks in which another institution is specialized. A bank, according to this view, does not create its own extension service to provide supervision for its loans. An extension service, as another example, does not set up a credit program in its own house.

The single agency. I have been arguing that there are some good reasons for concentrating small farmer programs in one institution--or for limiting AID assistance in this area to one institution. These reasons can be seen as having the force of the technological dictates that cause power and transport projects to be executed by one organization. First, the institutional coordination required to make a rural development program work often does not materialize in this type of project environment. Second, the political implications behind small farmer programs may sometimes make them best carried out by one organization. The concept of functional specialization should therefore not always determine the design of this particular type of project. Banks, that is, should not necessarily give credit only; or extension services only extension; or agrarian reform agencies only land adjudication.

Organizational specialization by client group rather than by task may be, in some settings, a more workable principle of project design. That the small farmer and the large farmer are both involved in agriculture, for example, should not necessarily be the determining factor in deciding what institution can serve them best. It is just as important that the small farmer has a socio-economic existence very different from that of the large farmer--which sometimes even puts the two at odds. The logic of what they produce may place them in the same organization. But the logic of where they stand in relation to each other on the socio-economic scale puts them in different ones.

Organizational overlapping. The machine-like world view shows up not only as the assumption that the more parts that are included in a program, the better chance it has to work. The view also results in a concern for stamping out or avoiding overlapping activities by different agencies. If each part in a machine is designed to do a certain task, according to the analogue, there is no reason for one part to take on a task already being done by another. This is redundancy. But the machine analogy to the institutional setting of a development program is not accurate. Some agencies, for example, will not be able to do their task well precisely because a complementary task has been entrusted to another agency. The second agency may give preference to another program in which it plays a more central role. Or, the second agency may serve another client group with a stronger claim on its time and resources.

In some cases, then, AID should finance the development of complementary services in the same institution simply because it has proven itself to be committed to small farmers. This should be done even though some of these services are already officially housed, according to traditional specialization patterns, in another institution. The peasant union association ANACH, for example, is an organization of proven dedication to the peasant and of proven political power. For some years, it has sought AID assistance for expanding its services into cooperative technical assistance and credit. By function, however, it is a "labor union association," set up to organize peasants and meet their demands for land--not a credit operation or an extension service. Thus AID has not really considered this organization as a serious candidate for its rural development projects. It has responded to ANACH requests with limited funds, out of a political obligation it has to the U.S. labor movement--institutionalized in the AIFLD program and the Embassy Labor Attaché.[3]

The credit union federation FACACH, as another example, was passed over by AID for the BNF in 1973 and 1974 as the organizational focus of a small farmer credit program. In justifying this exclusion of FACACH, AID said that the organization was "a federation of savings and loan cooperatives and as such was not designed to meet the special needs of small farmers." The federation, moreover, had "never attempted to enlarge its agricultural staff," and had not succeeded in negotiating an arrangement with the extension service for use of their agronomists.[4] FACACH, however, had for some time housed a group of young managers who were very interested in social action programs for the peasants. They saw the credit union in a broader context than usual, hoping

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[3]AIFLD is the American Institute for Free Labor Development.

[4]AID/H, "Request for Amended Authorization of Loan No. 522-L-018; Agricultural Credit & Storage," Memo to Office of Development Resources, Latin American Bureau of AID, n.d. [Fall 1973], pp. 8-9. This story is told in greater detail in the FACACH chapter above.

to use it as an instrument for such programs. Indeed, some of these managers have left FACACH because of discontent over its "conservative" orientation, and are now heading up small organizations exclusively involved with organizing peasant farmers. FACACH, in short, had more of a history of concern for peasant farmers than the BNF. It was also a proven financial institution. It was excluded by AID for a small farmer program on considerations related to inappropriate functional specialization. The considerations I raise, however, might have made it more logical to give a larger role to FACACH.

The literature on organizations has suggested that the kind of redundancy that might result from the arrangements suggested here can be a healthy feature of institutional environments.[5] It provides an opportunity for competitive evaluation of performance in the public sector. It is a competitive goad to the "redundant" departments to improve their performance. It also provides a safety factor for getting the job done. If one group fails, the other one is there too. I am not proposing redundance or overlapping on its own account. I am suggesting, rather, a re-definition of organizational tasks that makes small farmer extension, for example, a different task than large farmer

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[5]Martin Landau, "Redundancy, Rationality and the Problem of Duplication and Overlap," Public Administration Review 29 (July-August 1969), pp. 346-358.

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extension. Redefining the task this way may require different institutional homes for the two, and a certain amount of redundancy.

Coordination aversion. Inter-agency coordination may be most difficult when the traditional shares of government agencies in the budget become subject to change. This can result from political instability, or from the expectation of large increases in government resources for which budget allocations have not yet been made--e.g., an expected large foreign assistance program, a large projected increase in petroleum revenues. When revenue and expenditure matters are so up in the air, government agencies will consider the hoped-for budgetary increases as up for grabs. They will see themselves in competition with other agencies as to who gets the money first. At a time like this, cooperation by one agency with another may give the other agency a chance to demonstrate its capability. This will be seen by the first agency as prejudicing its own chance for a larger share of the new funds--as helping the other agency to boost its share. Inter-agency rivalries, in other words, will be exacerbated under such conditions. Cooperating with other agencies will be looked at as a foolish giving up of power. This contrasts to more stable times, when agencies are more apt to see themselves as getting the same share of the government pie, no matter how they behave.

The unanticipated availability of US$744,000 of the 018 loan, on the eve of FECOAGROH's demise, is an interesting example of this type of coordination-averse behavior.[6] "During the mid-1973 FECOAGROH rescue activities," it was reported by the AID Mission, "neither the BNF [National Development Bank] nor the Ministry of Natural Resources offered assistance to that Federation."[7] The BNF and FACACH, moreover, wanted those credit funds for their own programs. In trying to convince AID that it deserved to have the funds, the BNF suddenly agreed to an AID proposal that it had been against for some time--establishing a Coop Window. This would give complete power over the new funds to itself. At the same time, the Bank was not in favor of the proposals whereby it, with other institutions, would help save the FECOAGROH coops. FACACH, in turn, made a proposal for its exclusive use of the $744,000 which, it said, would not work without "precisely this amount."[8] With anything less, FACACH was saying, it could do nothing to help save the

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[6] FECOAGROH was the Federación de Cooperativas Agrícolas de Honduras, a cooperative federation created with AID assistance in 1971. It claimed 34 cooperative and pre-cooperative affiliates at its zenith. After its failure in 1973, it was taken over by the Cooperative Department, which focused attention on 13 affiliated coops. The FECOAGROH story is told in a separate section above.

[7] AID/H, "Request for Amended Authorization of Loan No. 522-L-018," [Fall 1973], p. 10.

[8] AID/H, Letter of Mission Director to Office of Development Resources, Latin America Bureau of AID, 19 July 1973, p. 3.

FECOAGROH coops. An unallocated $744,000 windfall, in sum, produced coordination-averse proposals by other organizations. FECOAGROH, in the meantime, collapsed.[9]

The period after passage of an agrarian reform law is also not always conducive to inter-agency coordination. This is especially true if, as in the case of Honduras, the reform brings substantial increments in public sector resources for agriculture and significant shifts in the budget shares of government agencies. In Honduras, agency shares were shaken up on three counts: a less powerful government agency in agriculture, INA, obtained substantial increments in power; the government directed the Central Bank to make unprecedented increases of credit ($2 million) available to post-reform peasant groups; and a large AID loan for agriculture was being negotiated and modified repeatedly for more than a year after issuance of the first agrarian reform decree. All this created an environment ripe for inter-agency rivalry and backbiting. This was heightened, in turn, by the polarizing nature of the issue behind all these increases in revenues--the agrarian reform.

Putting the above considerations together, it can be said (1) that a small farmer program may sometimes be best located in a single institution, or spread between institutions in a way

[9]These events are documented in the FECOAGROH and FACACH chapters above.

that requires little coordination; (2) that the institution should be hand-picked for its commitment to small farmers rather than only for its ability to carry out a certain conventionally-defined task; and (3) that a history of large farmer claims on an institution's services is a crippling handicap, disqualifying many ministries of agriculture and development banks. In a period of agrarian reform implementation, these considerations are even more important because of the tendency toward inter-agency competition and because of the random appearance of reform-averse behavior in the public sector.

Agrarian Reform: Not Giving Everybody a Chance

As pointed out above, AID distributed its sector loan funds between institutions and types of borrowers, rather than concentrating on post-reform groups and the agrarian reform agency. It also wanted to be sure that all kinds of small farmer borrowers had access to its credit funds--individuals as well as groups, coops as well as reform groups. It did not want the credit mechanism to become a way of forcing farmers to do what they might not want to do, just to get credit--i.e., forming groups rather than working individually, or forming certain kinds of groups rather than others. There was concern that the government would favor its agrarian reform groups in the distribution of credit and other services--that non-reform groups and individuals would be discriminated against. AID wanted access to the credit to be "democratic," and the decision to form or join a group to be one of free will.

The Mission expected that the Honduran government program for the 1974-1978 period would (1) place "major" emphasis on the land reform-asentamiento program, (2) provide "some" services to cooperatives and other associations, and (3) pay "relatively little attention" to the independent small farmer.[1] Yet the land reform-asentamiento program, the Mission felt, "should be viewed as only one mechanism for reaching small farmers." It was important, the Mission believed, "to support all three channels of credit to small farmers"--the BNF's credit for cooperatives and for individual small farmers, as well as its asentamiento fund. It was important to "develop other" channels, the Mission said, in order to (1) reach more farmers, (2) compare different approaches, (3) support private sector institutions servicing small farmers, (4) experiment with "still other" approaches to small farmer credit, and (5) encourage increased flows of credit to small farmers.

It is important to compare AID's needs, as expressed above, with those of an agrarian reform government. Agrarian reform is a time of intense concerted government action to give land to peasants and to get them established as viable producers. All the time, one is working against the clock, trying to establish a political power base and hold it together. Governments have different ways of working against the clock. They usually involve the bestowing of rapid and considerable attention on certain favored groups and institutions. This goes along with the relative

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[1]AID/LA/DR, "Honduras: Agriculture Sector Program," 21 February 1974, p. 4. The rest of the citations in this paragraph are from the same source and page.

neglect of peasants not affected by the reform, of groups established before the reform, or of some peasants and groups who have less power than others.

This time of favoring--perhaps a relatively short one--may be indispensable to the success of the reform. It is not possible, that is, for a government to cover all fronts at a time like this. The technical and political demands on it will be so great that some informal criteria will evolve as to who gets served first. Exclusion of some will be inevitable. The government will want to favor agrarian reform beneficiaries over others in the provision of services. This will be one of its few opportunities to rapidly create a faithful political constituency for the reform. Groups or individuals not associated with the reform may be neutral to it, if not opposed. The relative neglect of them may be unfair, but it does not make bad political sense. It amounts to a rewarding of those who will support the reform government.

An agrarian reform abruptly increases the number of claimants for government services like credit. It declares that the rural poor now have rights to these services along with their new land--in addition to those who already have access. As a result, public services become even scarcer--in the short run--than they usually are. They have to be rationed out even more selectively. Put this together with the difficulty of obtaining political support for an agrarian reform, and one has a rule for rationing by which the scarce service is given first to the group that will render political support. Fortunately, this use of a program to gain political support does not contravene the program's objectives as much as might occur in other circumstances: the favored groups are supposed to be the beneficiaries of the reform anyway.

The favoring of certain types of groups, of course, may continue long after it is necessary to consolidate the reform. But that is the risk of such an undertaking. There are few other ways of approaching the problem, because of (1) the sudden entrance of reform beneficiaries into the population of claimants for government services, and the resulting scarcity of these services; (2) because of the need for the government to keep the reform moving at a rapid enough pace to ward off discontent from the potential beneficiaries themselves--a very real problem in Honduras; and (3) because of the scarcity of institutional capacity and resources to carry out a good reform in a short period of time. In times like these, scarcity choices have to be made. It makes sense to choose in a way that increases the program's chances for survival.

The time of a reform is no time for AID to worry about the left-out groups, or to try and make sure they get equal access to funds. To support them is like supporting reform-neutral public sector institutions. It is to diffuse the government's attempt to channel as much service in a short period of time to reform beneficiaries, and to get as much political support back from them as possible. After all, it was the reform beneficiaries who were the left-out ones of pre-reform times. If the new attention paid to them is somewhat exclusive, it may also be compensating for past imbalances. Of the "neglected" claimants for government services, which were of concern to AID, the cooperatives are pernaps best able to make it on their own for awhile. For they were able to get together and qualify themselves for credit independent of the reform. Individuals who are left out are, unfortunately, equally so before and after the reform--at least in the case of Honduras, where preference is given to group rather than individual land claimants.

By trying to be "democratic" with its post-reform funds, AID inadvertently goes against the grain of a major attempt to democratize the structure of production in the agricultural sector. The imbalance involved in concentrating government services on reform beneficiaries for a period of time is insignificant compared to the inequalities of the system that the reform is trying to break up. AID should allow the imbalance to occur, not because it is desirable or equitable. Rather, the process of redistribution behind the imbalance will have a much harder time succeeding without it. If AID is engaged in a program to support a reform, then, it is not appropriate to push for a criterion of allocative fairness that is alien to that of the reform.

AID didacticism. AID's desire to make sure the non-reform claimants to credit get equal access is part of a didactic approach that characterizes much of the relationship of foreign assistance organizations with their borrowers. One should lend to small farmers, the large farmer bank is told; one should support cooperatives, the government without a small farmer program is told; one should charge market interest rates, the government committed to subsidized interest rates is told; one should lend to all peasants, not just agrarian reform groups, the agrarian reform government is told. The approach results from the fact that offers of foreign assistance are often contingent upon the recipient's behaving in a certain way. "We will make resources available to you if you lend to small farmers, or raise your interest rates, or support cooperatives."

The conditional offer of assistance evolves into didacticism because many would-be borrowers aren't interested in doing these things. They agree to do so as the "cost" of getting the loan--just as the BNF agreed to engage in a small farmer program even though it wanted only seed capital, as told in the

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BNF section above. This type of response is a logical one for any person or institution who is offered attractive financing. Thus the behavior desired by AID may end up being the focus of loan negotiation and implementation, rather than a previously met condition. AID tells the borrower that it "should" do various things because they fit in with the behavior pattern of one who had already satisfied the precondition for obtaining the resources.

There is not necessarily anything wrong with this approach. Recipient governments live in an environment containing all kinds of economic incentives to favor large-farmer over small-farmer borrowers. There is nothing wrong with AID's introducing an economic incentive in the other direction, and trying to make it work. Some recipient institutions will end up engaging in the desired behaviors on their own, after a considerable period of AID tutelage. The AID loan, for example, can protect them from opposition to the desired behavior from other persons or institutions. By the end of AID's support, they may have built up enough experience and institutional strength to withstand that opposition alone. Though the didactic approach to change may often fail, it may sometimes succeed. But agrarian reform is not the time to be didactic.

Agrarian reform as precondition. The commitment to agrarian reform is a rare case where the government actually meets an AID precondition before the loan. And it meets the condition much more profoundly than is represented by government support of small farmer groups or credit programs. What is needed from AID after such an unusual sign of commitment is support and not suggestions. It is as if AID is so used to not having its preconditions met and to teaching and cajoling, that it cannot step back in this different kind of role--that of a creditor whose preconditions have been met extravagantly.

The time period in which agrarian reform must accomplish several things is short, in comparison to the open-ended time span of loans during more stable times. This shortness also is incompatible with the process of AID teaching, and the time-consuming disagreeing and compromising that this involves. It is not the time, therefore, to tell the Honduran government that its supply of services is too exclusive, or that it is not allowing enough freedom to the peasant to choose whether or not he wants to join a group. It is not the time to convey to a government that its organization of peasant groups into second-level associations smacks of state control of peasant production.

A government engrossed in a reform cannot afford to be confronted with a donor organization telling it to do things differently in order to get funds. What is important is not whether the reform fits AID's preferences, but that this rare event is occurring. Trying to convince the reforming government to do things differently, and holding out resources to bring that different allocation about, is a process that weakens the reform, even though it is done in the name of support. As one AID manager wrote, in response to others who wanted to "diversify" the sector loan out of asentamientos and communal production,

> The GOH [Government of Honduras] has decided on the worker-owned and operated agriculture business approach after intensive consideration of the alternatives. We do not believe that A.I.D., whose experience in land reform programs is hardly definitive, should dictate to the GOH the "correct" approach to the problem in Honduras... The GOH is in a good position to understand the realities of the Honduran context where cooperatives and peasant labor unions are strong and group farming has been done with some degree of success.[2]

AID's decision during a reform, then, is not how it can influence the government to do the reform more to its taste. It is not how to design a loan program that will counterbalance the concentrations of the government program and hedge against the risks of failure. The decision during a reform, in short, is a simple one: will we or won't we support their reform?

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[2] AID/LA/DR, "Honduras Agriculture Sector Loan," Memo to Deputy U.S. Coordinator, 13 June 1974, p. 1.

Diffusing Power: The Case of the Cooperative Department

For the reasons discussed in the sections above, AID's agricultural sector loan was spread across five institutions. Two of them--the Ministry of Natural Resources and the National Development Bank--had many large farmer strands in their histories. The third institution receiving support under the sector loan program was the Cooperative Department (DIFOCOOP) of the government. Unlike the other two, it had no history of association with large farmers; but it had also played no significant role with the small ones. Like many such departments in other countries, it had been a minor agency with an insignificant budget for many years, in charge of cooperative assistance and regulation.[1] It had also been the site for depositing the remains of FECOAGROH, which it had supplied with a part of its budget. Except for these latter cooperatives, the Department was "widely viewed as of little consequence in the [cooperative] movement except with respect to its key role in the legalization process."[2]

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[1] In 1974, the Department's operating budget was $205,000. It had a staff of 9 auditors and 11 extension agents serving 310 chartered cooperatives. The Department is within the Ministry of Economy and Industry. AID/LA/MRSD/SCD, "The Credit Component: A Semi-Analytical Report to USAID/Honduras to Assist in Preparation of the Capital Assistance Paper for the 1974 Agricultural Sector Loan," by John Heard, April 1974, p. 22.

[2] Ibid., p. 23.

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AID felt that the Cooperative Department should be strengthened considerably, as a complementary aspect of its sector loan program. The Department, it was said, should play an important role in developing simpler and more effective systems of small farmer cooperative organization. It would be important to the restructuring of FECOAGROH--a small federation of cooperatives originally created by AID, but unrelated to the agrarian reform. Because of the creation of so many new farmer groups through the agrarian reform process, AID felt that in general the department administering the cooperative law should expand proportionately.[3] The sector loan, therefore, required that the Honduran government increase the Department's budget by 50% over its previous $200,000 annual level--that is, an annual increased government contribution of $100,000 over the four-year period of the sector program.[4] Another $300,000 in AID technical assistance to the Department was proposed by the Mission in early 1975.[5]

There seemed to be no compelling reason for assisting the Cooperative Department, except that it made for a more complete,

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[3] AID/LA/DR, "Honduras: Agriculture Sector Program," 14 June 1974, pp. 156-157.

[4] Ibid., pp. 156, 162.

[5] AID/H, "Agricultural Cooperatives (Small Farmer Organizations Development)," Noncapital Project Paper (PROP), 30 January 1975.

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more comprehensive sector loan. That the Department was insignificant had been of no hindrance to the development of farmer groups in the past. These groups had proliferated much more in Honduras during the ten years preceding the sector loan than in almost all other Latin American countries. The banana cooperatives had grown to be particularly successful during this time, despite the absence of a significant Cooperative Department.

The agrarian reform government had almost ignored the Cooperative Department completely. It was investing its group-creating concerns in the programs of the National Agrarian Institute, involving it in many of the tasks that the Department saw as its own. In early 1974, the director of the Department had expressed to AID his "tremendous personal frustration at [this] lack of government support and attention." He sought to remedy the government's neglect by making "a strong case" to AID for including conditions in the sector loan that would "force a major increase" from the government in its budgetary resources.[6] He was apparently successful, at least according to the budgetary arrangements for the Department in the sector loan, as described above.

It was clear, then, that the Cooperative Department was not considered by its

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[6] Ibid., pp. 23-24. Emphasis mine. The same AID evaluation also found the Department "'out of it' in terms of planning for ag sector development." P. 24.

own government to be an important part of the agrarian reform effort. It was AID and not the government that felt the need to strengthen the Cooperative Department.

As might be predicted from this story of a neglected agency, the sentiment against the National Agrarian Institute was strong in the Cooperative Department. INA and the agrarian reform program were considered "communist" and "paternalist" by the Cooperative Department. ("Communism" and "paternalism" were frequent bedfellows in the lexicon of criticism against the Honduran agrarian reform agency.) INA did not hesitate to return the epithet, calling the Department reactionary and impotent.

The reasons for the Cooperative Department's discomfort with what the National Agrarian Institute was doing were more complex than conveyed above. The Institute was working with post-reform groups called asentamientos, which had no legal personality and were simpler in structure than cooperatives. The Department's bailiwick was cooperatives, which were somewhat peripheral to the agrarian reform government's main focus. There was some controversy, moreover, between those who favored asentamientos and those who favored cooperatives. Studies had been done of successful cooperatives, showing that a large part of their labor was hired outside the cooperative on a part-time basis; the outside laborers were found to earn less than member laborers.[7] This meant that cooperatives were treating their hired labor exploitatively, it was said; they were taking on the undesirable features of the business enterprises from which they were meant to differ. When the peasant union federation, ANACH, tried to help organize the outside laborers of one of the successful banana cooperatives, the Cooperative Department informed them that it was not legal to organize labor hired by cooperatives.

Because of concerns over this type of problem, the agarian reform law of 1975 directed (1) that cooperatives should expand their membership to the point that outside labor was not necessary; (2) that any seasonal outside laborers be given preference in admitting new members; and (3) that the cooperative pay its outside seasonal labor at the same rate as its own members.[8] Needless to say, the cooperatives and the Cooperative Department were unhappy about this provision of the law.

The asentamiento was said by its proponents to avoid the cooperative's "exploitative" and "elitist" features. In contrast

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[7] Instituto Interamericano de Ciencias Agrícolas de la O.E.A. (IICA), Estudio sobre organizaciones campesinas en Honduras," by Noel A. García, Tegucigalpa (April 1974), 34-82; Enrique Astorga Lira, Evaluacíon de los asentamientos y cooperativas campesinas en Honduras (Período 1973), [1974], reproduced by INA in Tegucigalpa.

[8] Honduras, Ley de Reforma Agraria, Decree No. 170 (Tegucigalpa: 1 January 1975), Article 107, Chapter II.

to coops, asentamiento members were usually required to work a minimum number of days per week in the fields, even if they were elected officials. The latter were required to rotate once every year, in contrast to coops, and re-election was not allowed. The asentamiento member's contribution to the group was made principally in the form of his own labor.[9] The cooperative member had to contribute in capital. According to the critique, this allowed for significant discrepancies in contributions and benefits between members. The cooperatives, in turn, felt that the asentamientos were too controlled by the National Agrarian Institute, and that the cooperative principle of democracy was thereby being violated.

There was, then, a strong difference of opinion between the National Agrarian Institute and the Cooperative Department on peasant-farmer groups. It was almost predictable that the government would have left the Department on the sidelines: the Department dealt with groups somewhat peripheral to the reform, and it and many cooperatives were unhappy with the form of peasant organization promoted by the government. Finally, to cement the gap between the two agencies, the director of the Cooperative Department had previously been with the National Agrarian Institute, and had left that agency before the reform with dissatisfaction.

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[9] Ibid., Article 118, Chapter II.

As a case study in inter-agency rivalry, there is nothing particularly unusual about this story. What calls attention to it here is that AID chose this particular moment to strengthen the Cooperative Department. This gave the neglected agency some hope of being able to stand up to the Agrarian Institute. AID's support and funds represented power for the Department. The concomitant working relation with AID opened up a potentially sympathetic ear for the Department's criticism of the Institute. The Department's power, of course, is still small compared to that of the Institute. But AID's support amounts to the reinforcement of an agency that was discontented with the agrarian reform, as carried out by INA, from the start.

AID's involvement of the Cooperative Department in its sector program--in addition to the other agencies--grew out of a desire to support the Honduran agrarian reform comprehensively. But it also resulted in a diffusion of power across the public sector at a time when power needed to be more concentrated in one or two reform-sympathetic institutions. Spreading the funds across different institutions was done also out of the concern for spreading risk. This way of spreading risks and covering bases, however, can be self defeating. Where difficult attempts are being made to redistribute wealth or public sector benefits, this kind of approach can dilute institutional power to the point of increasing the risk that the program will fail.

Limiting Risks: The Chosen Forty Asentamientos

The features of a risk-spreading strategy are sometimes completely outside the constraints within which an agrarian reform government must work. AID's decision to choose 40 reform groups (asentamientos) for credit out of the 600 in existence is a good example. This decision was a result of Washington's hesitancy to give all-out support to an agrarian reform government that had not yet proven itself. The reform government was a military one that had taken power in a coup several months previous to the loan discussions. The reform was operating out of a temporary decree and no one was sure it would be followed by the real thing when it would expire in December 1974. No one knew how long the government would last and whether the reform would stick. The financial requirements of assisting the 600 asentamientos--and those yet to be formed--would be considerable.

With all these considerations in mind, AID decided that only a select number of the asentamientos would be eligible for its credit--instead of making credit available to all reform groups or to only reform groups. Cooperatives would also have access to the credit and, unlike the asentamientos, would not have to be pre-selected. As the sector loan paper said,

> In the case of asentamientos, one can expect considerable risk to be involved due to the lack of lending experience with such organizations. Thus, AID loan support for lending to asentamientos should have as one primary objective the development of lending criteria. This strongly suggests that initial AID loan support should be limited to a relatively modest program in a limited number of compact areas, in order to obtain data for evaluating the preferable alternatives...
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> In the case of the cooperative window, sufficient experience exists to permit AID loan support for a generalized program.[1]

These modifications of the sector loan proposal left AID much less out on the limb. If the reform were to fail, AID would not have all its money invested in the asentamientos. The cooperatives had existed before the reform and would continue to exist after. AID would have invested, moreover, in only 40 of the 600 asentamientos--the strongest 40 of the bunch. Among the criteria specified by the loan paper for eligibility for AID asentamiento credit were (1) location within five kilometers of an all-weather road, with dry-weather trails permitting vehicular access; (2) a credit record during 1973, if organized prior to April 1, 1973; (3) secure status of the land assured; (4) a minimum of 3 hectares of total area; (5) 75% of the group's area had "to be free of general flood danger, be cleared of timber, and

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[1] AID/LA/DR, "Honduras - Agriculture Sector Program," 14 June 1974, p. 102.

generally be susceptible to cultivation without major land improvement activities"; and (o) at least 50% of the land area had to be of good soils.[2] In Honduras, any asentamiento meeting all these criteria before commencement of AID credit was likely to be in excellent shape. There was a good possibility that it would be able to survive any ending to the reform.

The 40-asentamiento approach was also risk-averting in that it was designed as a pilot program, on which data would be collected all along the way, including baseline data before loan disbursement. Control groups were to be selected so that the progress of the groups receiving AID credit could be compared to those not receiving credit. The program was "designed to promote the process of <u>learning how</u> to develop and manage a large-scale Agrarian Reform Program."[3] If things worked well, the Agency would be back with more financing on a larger scale. Among other things, this approach was expected to generate valuable and unusual longitudinal data on the project and the agrarian reform. In a sense, it was

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[2] Ibid., Annex I, Exhibit B, 12-12a. The acceptable soil types were (1) AB - well-drained, developed over alluvial materials; (2) VP - deep soils developed over volcanic materials; (3) AS and AA - soils developed over alluvial materials, flat to rolling.

[3] Ibid., pp. 25, 46-50. Emphasis mine.

the project evaluator's dream--the opportunity to measure an agrarian reform in progress and guarantee a supply of hard data on the impact of an AID program.

This experimental aspect of the sector loan was fittingly called the "Pilot Program." The name was later changed to "Model Asentamiento Program," representing the chosen forty. The change of the program's name from "pilot" to "model" was a result of dissatisfaction by the Hondurans. Some in the government felt that it would be politically difficult if all they could come up with from AID for the agrarian reform was an experiment limited to 7% of the asentamientos, at best. The government, after all, had planned to carry out the agrarian reform in a sweeping way. It was "particularly concerned with having assured financing for the requirements of the asentamientos," as the AID Mission reported, "and appears committed to give this program the highest priority within the allocation of National Funds."[4]

This was not a time to run experiments, in other words, or to reward a chosen and successful few. In the government's eyes, it was a time to provide support for a decision that had been taken, not to try and find out if the decision was worthwhile. How could the government give 40 hand-picked asentamientos special

[4] AID/LA/DR, "Honduras: Agriculture Sector Program," 21 February 1974, p. 5.

treatment, it was asked, when the political commitment of the agrarian reform was to all groups? The change of the program's name from "pilot" to "model" was the only concession to these concerns in the final version of the project. Though the government agreed to the 40-asentamiento plan, there was resentment about it. It was a partial reason for a period of strained relations between AID and INA after the change of government in early 1975. The story illustrates the power of donor organizations with scarce public capital to get countries to do what they would prefer not to. Likewise, it illustrates the problems that such financial "motivation" can cause.

The story of the name change of the "Pilot Program" reflects the problematic aspect of taking a risk-avoiding and experimental approach at this kind of historical moment. Experimenting is a way of spreading one's assistance through time, doing a project in more mincing steps than one would normally take. It is analogous to the institutional risk-spreading described above, which spreads one's assistance across institutions instead of time. But the time span implicit in an experimental program involving 7% of the asentamientos is much longer than the kind of time one is working with in an agrarian reform. The experiment may go well. But by the time one finds out, analyzes the data, and puts together a follow-up project, the reform may have come undone. The pilot project may have been a success for a few groups. But it can turn out to be not replicable because time runs out, rather than money.

Showing Support for a Reform

AID has a chance during an agrarian reform to markedly decrease the probability of failure by providing an unstinting commitment. The political impact of such a commitment, even if it involves no greater amount of funds, can be one of the most significant aspects of the AID support. It increases the power of the reform government and the reform-committed institution against those public sector institutions and other groups who are less sympathetic. A reform is of such a nature, in sum, that it is not possible to both support it and spread the risks of such support through space and time. Risk-spreading support is in itself an act of non-support, even if inadvertently so. For AID to experiment mincingly at a time like this is to give up an opportunity to swing considerable power, through a marginal investment of resources, toward bringing about a successful agrarian reform.

All this is not to say that AID should have committed more funds to the sector loan or to the asentamientos. It is not the absolute amount of funds that is relevant here, but the investing of a given amount of funds at a certain point in time and in a certain institution--instead of in various times and various institutions. AID could have approved, for example, a limited but rapid US$4 million project for asentamiento credit--the same as the model-asentamiento funding of the sector loan. The credit could have been made available only to asentamientos, and not to other kinds of borrowers peripheral to the reform. It could have been made available to all asentamientos, instead of just certain ones with certain kinds of histories. In this way, the loan could have amounted to a greater and more significant kind of AID support for the reform than the much larger $12 million loan, designed as it was. That an agrarian reform needs resources for its beneficiaries fast, then, does not mean that the resources need to be committed profligately. AID can support such a reform and still be cautious, just by committing a reasonable amount of resources at the right time and in the right place.

Agrarian Reform as a Development Project

Agrarian reform is a different animal than other kinds of projects that AID supports. When a reform is taking place, and AID wants to lend for it, the reform process should be looked at as the thing being lent to. During a reform, a program to supply an input or the servicing of a particular client will take place only if the reform is properly cared for. The agrarian reform program, moreover, represents much higher stakes for AID than a program of small farmer cooperatives or credit. If the reform works, it will have a much broader impact on small farmers than a successful cooperative or credit program. AID has rarely been able to achieve significant impacts with these latter programs, even when they were successful--as the cases in this and other evaluations show. The stakes are higher for AID in an agrarian reform, then, because of the unique and brief opportunity to have a significant impact on the well being of the small farmer.

All this means that agrarian reform requires a different timing of responses by AID than, say, the kind of institution-building program involved in the BNF small farmer credit program. With a BNF-type program, the institution has considerable time to grow with AID support and assistance. It can even afford the luxury of having serious problems in its first years, because AID is committed to help overcome these problems over a long period of time. By definition, institution-building takes time. Cautious behavior by AID on these occasions is compatible with the task at hand. It does not cause any setbacks.

An agrarian reform project, in contrast, has to achieve highly in its first years, if it is to survive at all. Unlike a small farmer credit program, which has no uphill political battle to fight, it cannot build up its strength in an incremental fashion. It is more like a dam construction project, which has to be finished before the rains come: if not, the rains will make it impossible to work until the next season and will undermine the construction already in place. An agrarian reform, similarly, is vulnerable to the opposition that will mount inevitably if it does not get things in place quickly enough.

The design of AID's involvement with an agrarian reform, then, has to be radically different from that of other projects in more tranquil times. Because a quick and concentrated AID response is important, and because the income redistribution following a successful reform is one of AID's highest priorities at the present time, the Agency should work out a response strategy for any future agrarian reforms that might occur. Such a design should take into account the unique quality of the reform as an assistance project, and its high stakes for AID.

<u>Legislation as precondition or goal?</u> A government committed to an agrarian reform is operating, by definition, in an uncertain political setting. It is the certain and stable political settings, in a sense, that have been associated with the intractability of the rural poverty problem. Instead of seeing a reform process as fraught with riskiness and requiring caution, AID should perhaps reverse its implicit conception of the causality of this situation. AID has the power of making such a government more certain and more stable, that is, by committing itself to the reform. Waiting-and-seeing, in contrast, can in itself lead to enhanced shakiness. Though caution can keep the Agency away from risky investments, it can also keep it away from potentially successful agrarian reforms.

In 1973 and 1974, AID was hesitant to commit so much to a reform that existed on the basis of a temporary decree and a military government of uncertain duration. An immediate AID loan, however, could have been seen as increasing the probability that permanent reform legislation would materialize. Instead, the absence of a permanent law was pointed to by AID officers as a sign of less than full commitment--of an uncertain future. The situation regarding the implementing legislation for the reform law was similar. AID had set up the sector loan so that the loan monies for asentamientos could not start disbursing until issuance of the implementing legislation defining asentamiento structure and legal status. This seemed a perfectly reasonable requirement.

In Latin America, implementing legislation is often as politically significant and controversial as the basic law. Sometimes it is even more controversial than the law; it can nail down the situation more tightly than the law itself, which opponents may have more hopes of evading. The implementing legislation for the asentamientos was a particularly significant issue in Honduran politics, since it would define the degree of control that the government would have over peasant groups. It was expected to reveal the political cast of the government according to the amount of state control that it designated over the groups and their second-level associations. Hence the implementing legislation was long in coming--almost a year. During this period, the structure of the asentamiento and its relation to the government was a hotly debated issue. Opposition to the reform mounted from peasant organizations themselves, who feared having to give up control to the government.

AID did not disburse credit to asentamientos during this period even after the government came up with the promised permanent agrarian reform law and with no delay. For AID had required implementing legislation as a precondition for disbursement. (This did not affect the other credit lines of the sector loan to individuals and cooperatives

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through the BNF.) AID might have been able, however, to bring about an event as difficult as the issuance of the implementing legislation --instead of considering this achievement as a precondition of lending and as a sign of commitment. It could have designed a project agreement that did not make loan disbursement contingent upon a difficult political achievement. AID itself could have increased the probability of that implementing legislation coming to light sooner, by arranging to release its credit prior to the legislation.

With respect to the implementing legislation for asentamientos, AID has pointed out that it could not lend to groups without legal title or stature. But the Central Government had been lending to these groups through the BNF for two years under such conditions; in lieu of legal title to the land and legal personality of the group, the Agrarian Institute had guaranteed the loans. Indeed, even AID 018 funds had been lent to such groups during 1973. (I do not know how prevalent such cases were. I found two in my sample of 018 loans.)[1] In Ecuador, moreover, AID was heavily involved in a program of investment credits to peasant groups who, like the Honduran asentamientos, did not yet have legal title.[1a]

AID felt that the delays in issuance of the implementing legislation, and of the permanent agrarian reform law in 1975, were signs of an inability of the government to get itself together.

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[1] See footnote b to Table 7b, p. 145 of BNF section.

[1a] See PPEA chapter of Ecuador volume.

These signs, however, can be interpreted in a different way. The process of achieving consensus within the government on legislation is a highly political and extremely difficult one--even for a military government. The temporary nature of Decree 8, the undefined legal status of the reform groups, and the large amount of government credit immediately committed to them--can be seen as the genius of the reform and not its inadequacy. The half-way quality of these measures allowed the reform to get going without first requiring laws and implementing legislation, the enactment of which would have been much more difficult to pull off.[2]

This stepwise approach allowed the peasants to get a foot in the door. As a result, they became politically stronger. They played an important role in pressuring to keep the pace of expropriation going, and to get the reform law and its implementing legislation issued. Having the peasants identify lands they wanted in "forced rental," moreover, was a way of shifting the burden of identifying expropriable lands from the government to the beneficiary --at a time when it was necessary to settle people fast and the institutional capacity of the government was not up to the task. The reform might never have gotten off the ground, in short, if it had tried to do first things first in terms of legislation.

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[2]Albert Hirschman describes a similar sequence for the achievement of agrarian reform legislation with respect to the Colombian case. Journeys Toward Progress (New York: The Twentieth Century Fund, 1963), pp. 93-158.

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That AID had made the implementing legislation a precondition of lending to asentamientos contributed in part to a situation in which the Mission was working with the National Development Bank, the Ministry of Natural Resources and the Cooperative Department for a considerable time during which it was not working with the Agrarian Institute.[3] The latter was the institution most associated with the reform. This put AID at some distance from the institutional heart of the reform during the early implementation period of the sector loan.

Conclusion. AID's relation with the Honduran reform government, and the design of its sector loan program, were influenced by apprehension over the risk of investing large amounts on an unproven reform government and its beneficiary groups. The risk was indeed there. But I disagree with the implicit assumption

[3]The sector loan was authorized in June 1974. The permanent agrarian reform legislation was issued in January 1975. By August 1975, the implementing legislation had not been issued, and none of the sector loan funds for credit had started disbursing--for various reasons, in addition to the one cited in the text. The Mission was working with the three other agencies because of technical assistance monies in the sector and previous programs.

that AID's other small farmer projects are less risky. Two years of involvement in agrarian reform certainly gave the Honduran government a track record sufficient enough to warrant a less cautious AID commitment. In Latin America, two years of survival for such a program is a good piece of time.

Looking at the AID decisions to finance other programs in its Honduran history, one finds it difficult to understand why the agrarian reform in particular evoked such caution. AID decided to provide the National Development Bank with $7.9 million in 1969, for example, even though it was fully aware of the fact that the Bank had never made a profit, had a 25% delinquency rate, was against independent audits, had a proven bias toward large borrowers, and was on the record as uninterested in small farmer groups.[4] That was certainly less of a track record for a small farmer credit program, let alone for a bank, than that established by the post-1972 government for agrarian reform. Similarly, FECOAGROH was chosen by AID as the conduit for more than $1 million of credit for small farmer groups and construction of grain storage facilities before it was even created, let alone had a record.[5] The BNF and FECOAGROH decisions, in short, were fraught with considerable risk.

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[4]See BNF chapter above.

[5]See FECOAGROH chapter above.

I am not saying that AID's decisions to finance the BNF and FECOAGROH were unusual. These kinds of histories are the rule rather than the exception for many foreign assistance projects. I am also not saying that the Honduran agrarian reform government merited full confidence, or exuded certainty and stability. I am saying, rather, that it merited no less confidence than most other programs AID has financed in the agricultural sector. To apply caution to this particular situation was to invoke a decision standard that is almost never used in the Agency's other small farmer programs. There is now enough evaluative evidence on small farmer programs to show that they generally carry substantial risk and uncertainty. Whether it's small farmer credit or an agrarian reform, AID is going out on a limb.

Table 1

Honduras: Comparison of Budgets for National Agrarian Institute (INA) and Ministry of Natural Resources (MRN), 1966-1974 (dollar thousands)

	Annual budget						Ratio of total INA to MRN budget
			INA				
	MRN[a]		Internal[b]		Total		
	Value	Annual % change	Value	Annual % change	Value	Annual % change	
1968	4,158	-	na	-	1,381	-	0.33
1969	5,670	36.4	na	-	1,873	-35.6	0.33
1970	5,358	5.5	na	-	1,979	5.7	0.37
1971	5,281	1.4	2,216	-	4,691	137.0	0.89
1972	4,514	14.5	2,694	21.6	4,072	-13.1	0.90
1973[c]	6,448	42.8	4,975	84.7	7,129	75.1	1.11
1974	9,516	47.6	3,666	-26.3	6,715	-5.8	0.71

[a] Net of transfers to other government agencies.

[b] The difference between internal resources and total resources is listed in the data source as "external." This includes foreign assistance (the IDB was channeling funds through INA) and resources transferred from other Honduran government sources.

[c] Military coup occurred on November 14, 1972; agrarian reform Decree No. 8 was issued December 26, 1972. First year of the agrarian reform is 1973.

Source: Based on data from AID/LA/DR, "Honduras: Agriculture Sector Program" (21 February 1974), Annex A, p. 5.

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INTER-COUNTRY EVALUATION OF SMALL FARMER ORGANIZATIONS: HONDURAS

VI - Two Issues

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October 1976

For Office of Development Programs of the Latin America Bureau of A.I.D.

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The history of the AID programs studied in both Honduras and Ecuador shows that the nature of the AID relationship with the institutions it supports inadvertently rewards problematic performance and penalizes good performance. The following two sections explain how this happens, and suggest ways of avoiding this kind of "perverse" outcome.

Pampered Problems

The importance of a policy of AID withdrawal from budget or technical assistance support that is credible to the recipient institution cannot be overstated. The expectation of new AID loans, or of slipping termination deadlines, can be a major obstacle to a resolution of the very problems that are said to require continued AID assistance. The inability of the Ecuadorean credit union federation to achieve self sufficiency is an example from the Ecuador case;[1] and the AID program with the National Development Bank (BNF) is an example from Honduras.

As discussed in the BNF chapter above, the Bank's high loan delinquency was cited by AID as an area for remedial assistance previous to the first AID loan and for two successive loans thereafter--covering a period of seven years.[2] Yet delinquency was about 20% before the first loan; it was about 20% on the first loan and the total portfolio; it was still 20% when the second and third loans were made in 1973 and 1974;[3] and it had risen to 25-30% in 1976, when the Mission was considering yet another loan.[4]

During the period of AID assistance to the BNF, it was never recommended that AID not give further loans or technical assistance to the Bank because of its delinquency problem. The Bank's delinquency, that is, was never considered as a reason not to lend to that institution. If anything, the problem was like a nail on which one could hang one's hat--a corrective program. A similar attitude was taken toward the delinquency problem of the Ecuadorean BNF, when it was a prime candidate for the Land Sale

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[1]Ecuador Report, pp. 174-182.

[2]Pp. 44-47 of BNF chapter above. All further information on the BNF's delinquency is from these pages.

[3]The 1973 loan resulted from the near de-obligation of $744,000 from the Agricultural Credit and Storage Loan (018), which could not be used by its intended beneficiary, FECOAGROH.

[4]Coopers & Lybrand, "Evaluación de la organización, políticas y procedimientos, y controles internos del Banco Nacional de Fomento de Honduras," Contrato AID/la-c-1129 - Honduras, February 1976, p. 34. In August of 1976, the BNF itself reported a delinquency rate of 28%. "Morosos adeudan al BNF 35 millones de lempiras," El Tiempo, 31 August 1976.

Guaranty Program. The delinquency rate was high (25%), it was noted in the loan paper, but the Bank was embarking on an improvement program with technical assistance from the IDB.[5]

In a sense, these banks' delinquency problems were inadvertently rewarded rather than penalized with AID withdrawal or the threat of it. This kind of economically "perverse" incentive system provides little motivation for an institution to deal with its problems. In these settings, then, AID assistance and negotiations for new assistance inadvertently create an environment in which problems tend to flourish rather than die.

Another such pampered problem is the bias toward larger farmers in institutions like development banks and extension services--a recognized problem in the case of the Honduran BNF. As AID sees it, the problem is that the institution often tends to favor the larger farmer, despite AID programs and pressures to

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[5]AID/LA/DR, "Ecuador: Land Sale Guaranty," Capital Assistance Paper AID/DLC/P-854 (24 June 1969), p. 27; Annex IV, Exhibit 4.

serve the small farmer. If the problem persists, more AID assistance is forthcoming to give the institution the resources and the know-how for lending to the small farmer. The large-farmer-bias problem, like delinquency, gets treated with more and more AID assistance.

AID, of course, is not attracted to these institutions because of their problems. More often than not, it wants to put a substantial amount of resources into certain kinds of programs in a country, and looks around for the most likely institutional candidate for the job. (Or, it decides to create a new institution, as it did with FECOAGROH and FACACH in Honduras.) In Honduras, the BNF looked like the only possibility to AID for a significant small farmer credit program. So that institution was chosen as the conduit, and assistance for its problems was included in the loan program.

This may be a reasonable second-best approach for AID in an imperfect environment. But the approach creates an incentive system, without meaning to, that rewards the problems and withholds penalties for their continued existence. AID's affiliation with the institution may make sense in terms of finding an existing conduit to the small farmer and adapting it. But from the institution's point of view, the affiliation with AID turns out to be totally compatible with the problem behavior. The recipient institution does not perceive itself as losing out because of its lack of progress with these problems.

As in many other cases of second-best institutions, the perverse effect of the AID relationship on an institution's problem behavior is heightened when other international lending institutions are involved. They also may select the institution for their programs because it is the only one around. The Honduran BNF, for example, had both AID and IDB support over a period of time.[6] Thus even if the AID program were somehow designed so as to discourage the problem behavior, the existence of, or potential for, substantial support from other donors could cancel out the effects of the AID disincentives.

Another difficulty in putting AID together with problematic institutions is that the institution may experience the "problems" as more functional to its existence than dysfunctional.

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[6] The IBRD turned down the BNF in the late 1960s precisely because of its problems, when it was looking for a conduit for livestock credit (note 5 on p. 2 of BNF chapter).

Delinquency and large-farmer bias are two examples, as discussed in the BNF section. AID names them "problems," but from the institution's point of view, they can be seen as being in complete consonance with organizational needs. Letting some large farmers pay back loans late, or giving them preference over small farmers in the allocation of credit, can ensure political support for the institution. Doing things this way can help the institution's agronomists to make a decent living, and can protect the careers of directors and administrators. To "solve" these kinds of problems is to pull out some of the life stays of such an institution. In this sense, no amount of AID education or training in problem-solving techniques can make these behaviors be felt as problems by the institution, let alone do away with them.

One way AID can help diminish these "functional" problems is to make them into <u>real</u> problems to the institutions, in addition to attacking them directly. For example, it is only when delinquency and large-farmer bias inflict as much cost on a bank as collecting on loans from large and influential farmers, that these problems will start to be treated less complacently. AID can help turn the tide by making it difficult for such institutions to get additional AID capital or other support until significant progress with the problems has been made. AID, in other words, has the power to make the problematic behaviors dysfunctional, rather than functional. As long as there are renewals of assistance to work on these behaviors, however, they continue to be functional. In fact, they become even more functional than without the assistance, for they become associated with support from outside elites as well as local ones--i.e., from the donor institutions.

Though the withholding of additional loans or assistance may succeed in transforming functional behaviors into problems for an AID-supported institution, it can also leave an AID Mission without projects. The institution may also fall back on other loan sources, as mentioned above, which may be more lenient about the behaviors in concern. Withholding of further AID support, then, might not even have the desired effect, even if AID were willing to lose the project in the process. Short of these extremes, AID needs to d vise some ways of turning these behaviors into true problems for the recipient institution. If it does not do this, they will continue to work well for the institution and no amount of AID assistance to diminish them will succeed in doing so. Or, they will be resolved at much greater cost and over a much longer time period than is necessary.

One area in which AID can manipulate the incentives to problem behavior is the treatment of termination dates, which affects the institution's expectations about future AID assistance.

Before further assistance is granted or even talked about, the achievement of certain levels of problem-solving could be made mandatory--e.g., a certain delinquency rate, a certain percentage of small farmer loans in the total portfolio, a certain level of financial self sufficiency. These types of goals usually are stated as objectives of an AID program, but not as preconditions for further lending.

The covenants to AID loan agreements will sometimes include a specific directive about desired levels of problem-solving. BNF delinquency was "covenanted" to fall to 10% by 1969, the year after the 018 loan was authorized. But no penalty is attached to failure to live up to the covenant. The BNF failure to diminish its delinquency at all by 1969, let alone to drop it to 10%, was eventually dealt with by AID by postponing the 10% deadline for eight years. And the new schedule became part of a new loan! Such failures, however, should be met with penalties rather than new loans. The point of the penalty is not to be punitive, but to turn around the disincentives of the present system against improvement.

One possible approach to a proper incentive system would be to phase loan disbursements over a period of time. This could be tied to a schedule by which the disbursement would be reduced by a certain percentage when the covenanted objectives were not met--just as construction contracts have penalty systems for not meeting deadlines. In order to induce the desired behavior, and not only punish the undesired behavior, the system should include rewards as well as penalties. Disbursements could be increased, for example, for exceeding the phased targets. This would keep the incentive system from working only in a downward direction and cumulatively undermining the project. Whatever the details of such an arrangement, its importance would lay in the fact that the recipient institution would know in advance, and with exactitude, that the problem behaviors were to result in significant costs.

It may be that AID does not have the programming flexibility to use this kind of system. In that case, other tactics with the same effects should be devised. At the least, second and third large loans should not be discussed with such institutions when they are not making progress in the problem areas. Or, it should be made clear to them that additional lending will be contingent on the meeting of the originally covenanted targets. Otherwise, simply talking about future assistance with a recipient institution reverses the incentive for it to do anything about its problems.

AID's first loan to the BNF provides an example of another way of transforming AID-perceived problems into pressing problems for the assisted institution. The 018 loan funds were lent to the Honduran government, which donated them to the BNF. The BNF, that is, was not required to make interest or amortization payments on the AID funds. Though this arrangement was consistent with the Government's interest in capitalizing the Bank, it took away one of the few incentives in the AID program for the Bank to improve its financial discipline. To receive $8 million of AID funds as a donation rather than a loan, that is, meant that the Bank had no repayment worries. Hence the cost to it of casual collection procedures and high delinquency was no greater than it had been before--when much of its government-donated capital had been eroded by its high delinquent accounts.

If AID had insisted on a loan rather than a donation to the Bank, the Honduran government would probably have found other ways to capitalize that institution, because of its great interest in promoting the Bank. These other ways would not have deprived the AID project of one of its few and precious disincentives to the problem behavior.

Requiring financial institutions to pay on their AID loans, in sum, is another tactic that can contribute toward transforming certain problem behaviors into real problems for the institution.

This is so even if a recipient government or institution refuses to accept the AID monies on those terms. For it means that the institution's financial sloppiness has prevented it from getting a large amount of attractive and scarce capital. When this happens, delinquency has turned into much more of a problem.

The Close Adviser

Contributing to the problem of unintended rewards for undesirable behavior is the technical assistance relationship of AID or contract advisers with AID-supported institutions. The history of the AID programs studied in the inter-country evaluation suggests that decisions to continue AID support to an institution are considerably influenced by how well AID or contract advisers get along with that institution. The necessity of that assistance to the institution's future, or in comparison to other potential AID projects, often takes on secondary importance. Turnover in program-monitoring and contract personnel, shifts in policy directives, and changing fads in development lending are other factors that play an important role in such decisions. Sometimes they reinforce the compatibility criterion, sometimes they counterbalance it.

The extension of project termination deadlines and the renewal of project agreements result from the judgment by AID or contract advisers that the institution cannot make it on its own. It is natural that these advisers will sometimes be reluctant to end their involvement in an AID-supported institution. This is not necessarily because of considerations related to their own employment. After such a close and long association with an institution, that is, one tends to always see work that is still to be done. The more intimate one becomes with an organization, the more ideas one has about how to deal with its failings. Involved advisers will always be able to find serious failings which, they will believe, cannot be left unattended. Under such circumstances, it will not be difficult to demonstrate the need for additional AID financing.

At a certain point, the success of the institution and the success of even the most competent of advisers tend to diverge. The project will be successful in institution-building only if it results in the eventual dispensability of AID. But the success of the adviser is based on his being needed by the institution. As an individual, then, the AID or contract adviser can be of considerable value to the institution. But from the point of view of institution-building, the continuation of his AID-financed stay at the institution involves an AID presence that makes certain problems intractable.

Prolonged renewals of AID grant and loan assistance to an institution along with repeated failure to meet targets in problem areas is often indicative, more than anything else, of long-term compatibility between AID or the contractor and the institution. The BNF in Honduras and FECOAC in Ecuador are examples: no progress on delinquency for one, and disappointing progress on financial self sufficiency for the other. Similarly, preliminary or on-time terminations of AID assistance may be more indicative of incompatibility between AID or the contractor and the recipient institution, than of poor performance with respect to the project's objectives. FACACH in Honduras and FENACOOPARR and CREA in Ecuador are examples. (In the case of CREA, incompatibility was between AID and the contractor.) The termination of the AID relationship with FACACH seems to have had more to do with resentments between donor and recipient than with the fact that the Federation had become self sufficient. Preliminary termination of the relationships with FENACOOPARR and CREA were also the product of conflict.

When AID builds an institution that is strong and healthy, that institution will ultimately find AID's presence undesirable, no matter how well liked are the persons representing AID or the contractor. The incompatibility and the desire for AID's riddance will often push an institution to look around for other sources of financing. The desire to attract other kinds of backers, in turn, will pressure the institution to perform in the areas that are still problematic. Though this process may be unpleasant for AID, it needs to be seen as a sign of organizational growth. Long term compatibility between AID and a recipient institution, in sum, should be looked upon with a certain amount of suspicion.

AID should attempt to counterbalance the tendency of advisers to see all too clearly what more there is to be done, or to want a prolonged affiliation for themselves. Because the close adviser will almost always be able to show legitimate need, it will not help for AID to demand more rigorous demonstrations of need from field personnel. One approach might be to regularly assess the benefits to the recipient organization of a break with AID. The assessment should come from someone not associated with the institution. It should ask what the benefits would be to the institution's growth of not supporting it. One could also ask what the benefits would be of providing the institution with an income in a way that would require little or no AID involvement--as in the cases of interest income and credit intermediation by "neutral" parties cited in the FACACH chapter above.

Another approach to this problem may be to build some inflexibility into programs, to map the future a little more. Hard-and-fast termination dates for AID support are one possible alternative. Hidebound phasing-out designs are another. Ironically, I am proposing some inflexibility for a project environment for which one normally proposes a greater degree of flexibility and compassion than is usual. But the stories of this evaluation suggest that compassion can kill the institution one is trying to help--or, at least, stunt its growth. Projects should be designed, in sum, to prevent compatibility with the recipient institution from becoming a decision rule by default.

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