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

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

HONDURAS - AGRICULTURE SECTOR PROGRAM

AID-DLC/P-2052

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BEST AVAILABLE

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

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June 14, 1974

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Honduras Agriculture Sector Program

Attached for your review are recommendations for authorization of a loan to the Government of Honduras ("Borrower") in an amount not to exceed twelve million United States Dollars (\$12,000,000) to assist in financing the United States dollar and local currency costs of a Agriculture Sector Program ("Program") to be administered by the Ministry of Natural Resources, the National Agrarian Institute, the National Development Bank, the Superior Council for Economic Planning, and the Ministry of Communications and Public Works ("Executing Agencies"), specifically for the following Activities: Model Asentamiento Activity; Cooperatives and Associations Activity; Coordination, Management, Planning, and Evaluation Activity; Extension Service Support Activity; Vehicle Maintenance Activity; Improved Seed System Activity; Agriculture Education Activity; and an Asentamiento Access Roads Activity.

This loan is scheduled for consideration by the Development Loan Staff Committee on Thursday, June 20, 1974. Also please note your concurrence or objection is due by close of business on Tuesday, June 25, 1974. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development
Program Review

Attachments:

Summary and Recommendations
Project Analysis
ANNEXES

AGRICULTURE SECTOR LOAN PAPER

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HONDURAS - AGRICULTURE SECTOR PROGRAMPART ONE - SUMMARY AND RECOMMENDATIONS

1. **BORROWER:** The Borrower will be the Government of Honduras. Executing agencies will be the Ministry of Natural Resources (and its expected successor, the Ministry of Agriculture); the National Development Bank (BNF); the National Agrarian Institute (INA); the Superior Council for National Planning (CSPE); and the Ministry of Communications and Public Works.
2. **LOAN:**
 - a) **Amount:** Not to exceed \$12,000,000.
 - b) **Terms:** Repayable in dollars within 40 years including a 10 year grace period, at an interest rate of 2 per cent per annum during the grace period and 3 per cent thereafter.
3. **GOAL AND PURPOSE:** The overall Goal of the Sector Program is to improve the well-being of the rural poor of Honduras. The specific purposes of the Loan are (a) to support the effective expansion of Honduran institutional outreach to embrace increasing numbers of peasants and small farmers, and (b) to support the Honduran agrarian reform effort.
4. **PROGRAM DESCRIPTION:** A multi-faceted program whose activities are mutually supportive and whose unifying principles are the above Purposes, will be financed under the Loan, with grant assistance to be provided in selected areas. An AID-GOH financed model "asentamiento" (settlement) activity will serve as an evolving prototype from which lessons may be learned even as the broader asentamiento program (the cutting edge of the agrarian reform) unfolds. A cooperatives activity sets the groundwork for the private institutional structure to absorb the new farmer organizations being created through the agrarian reform effort. A management, planning and evaluation activity will help institutionalize capacity to enable the GOH to plan, organize and manage the sector effort. An asentamiento access road activity tied into the model asentamiento activity will provide better access for existing asentamientos and provide access for new asentamientos within clusters selected for the model activity. Agriculture services (including extension service support, an improved-seed system

activity and vehicle maintenance) will provide necessary support to the expanding outreach of the Ministry of Agriculture. Finally, an agriculture education activity will address the needs of the sector for trained manpower.

5. FINANCIAL PLAN:

	GOH	AID LOAN		TOTAL
		DOLLAR COST	LOCAL COST	
<u>Small Farmer Credit Mechanisms</u>				
Model Asentamiento Activity	2,985		4,000	6,985
Cooperatives & Associations	1,960	765	1,500	4,225
<u>Coordination, Management Planning and Evaluation</u>				
	520	451	370	1,341
<u>Agriculture Services</u>				
Extension Service Support	1,087	192	40	1,319
Vehicle Maintenance	390	757	195	1,342
Improved Seed System	304	100	300	704
<u>Agriculture Education</u>				
	299	950	514	1,763
<u>Asentamiento Access Roads</u>				
	562	56	1,810	2,528
T o t a l s	6,707	3,271	3,729	26,707

Of the \$20.7 million total costs of the program, the Government of Honduras will be contributing \$8.7 million, or 42 per cent. This reflects the high priority the GOH gives to the program. The AID loan will finance an estimated \$9.3 million in foreign exchange costs which amounts to 27.3 per cent of the AID loan and 15.3 per cent of the total costs of the program.

6. OTHER SOURCES OF FUNDS: The Export-Import Bank, IBRD and its affiliates, and the IDB have all informed AID that they are not prepared to consider this Program.
7. PROGRAM SETTING AND BACKGROUND: The proposed Sector Program has been in gestation for some two years. In the summer of 1972, an

All-financed sector analysis effort was launched. Over the past months it has produced several analytical studies which have been used, in part, in the recently completed GOH sector planning effort. During the spring of 1973, it was decided USAID would prepare an assessment of the agriculture sector to provide a firmer base for an AID sector loan. The Assessment findings included an analysis of the constraints to sector development, the most critical among which were cited as (a) land tenure and farm size; (b) the lack of manpower to manage agriculture sector development; (c) institutional constraints including the lack of coordination; (d) marketing constraints; (e) an inadequate credit delivery system; and (f) climatic conditions.

Meanwhile the Government of Honduras, which had come to power in December 1972 as the result of peasant unrest, was undertaking an emergency land settlement program and developing the outlines of a five year plan for agriculture sector development. The agriculture sector analytical process and the simultaneous development of an overall national plan not only laid the groundwork for future action; it also enabled the GOH to identify a number of problems on which it could begin to act immediately.

The GOH moved decisively to deal with problems within its immediate power to treat: over 15,000 families have been settled on national or private lands under forced rental arrangements; coordination was improved and political commitment underlined with the establishment of a senior agriculture sector coordinating group (COCO); budgets for organizations servicing the agriculture sector were increased; a new Agrarian Reform Law is being drafted and will be promulgated shortly; the Ministry of Agriculture moved closer to the farmer through a reorganization into decentralized regional units operating from provincial towns; the extension service was directed to focus its resources on helping lower income farmers; and a fund of \$7 million was established in the Central Bank to promote the flow of credit to small farmers.

The Chief of State's New Year's address to the nation stated the social goals of the GOH:

- a) to ensure each person a level of income adequate to basic needs;
- b) a permanent lowering of the level of unemployment and under-employment;
- c) to improve the quality of life for the rural population;

- d) to achieve a more equitable distribution of income; and
- e) to transform the economic structure to promote sustained growth in national production.

These goals are buttressed by detailed plans subsumed under the National Development Plan which will soon be published and by the Agriculture Sector Development Plan which was recently released. Thus, it can be fairly stated that the GOH has carried out the initial phase of its agricultural sector program. The GOH has defined its policy, committed itself to that policy politically, initiated significant organization changes, committed resources, resettled campesinos, and has developed detailed plans and published them. The GOH now seeks major AID financial assistance for the next phase of its program.

8. LOAN ADMINISTRATION: The loan is structured on a four year disbursement basis tied to the implementation of the GOH Agriculture Sector Development Plan (1974-1978). The four-year period is important in terms of consolidating the institutional changes which the loan supports and budgetary expansion plans related to the loan as the GOH contribution in certain loan categories.

The execution of the loan will be facilitated by an annual evaluation/programming process involving the Mission and the high level GOH Agriculture Sector Coordinating Committee. Each loan activity has been carefully designed on the basis of sound cost estimates and has been included for financing because of its demonstrated high priority among sectoral requirements. Nevertheless, past experience in sector programming has demonstrated that changes inevitably are required during the program's implementation period. Accordingly, it is recommended that the Mission be given authority to revise the level of any loan activity by no more than 15 per cent of the amount of such activity proposed herein.

9. STATUTORY CRITERIA: All statutory criteria have been met (see Annex III, Exhibit E).
10. VIEWS OF THE COUNTRY TEAM: The Country Team recommends that the Sector Program be authorized. It lies at the center of AID's priority in Honduras, and offers promise of a viable approach to ameliorate rural poverty.
11. RECOMMENDATIONS: The Mission recommends that a loan be authorized to the Government of Honduras for an amount not to exceed \$12,000,000

subject to the following terms and conditions:

- a) Interest and Terms of Repayment: Repayment in dollars within 40 years, at an interest rate of 2 per cent per annum during the 10 year grace period and three per cent per annum thereafter.
- b) Prior to Loan Agreement Signing: The Government of Honduras will enact a new Agrarian Law or modify existing legislation and either therein or otherwise, it will provide for secure status of lands for AID assisted "asentamientos" under this loan.
- c) Prior to Initial Disbursement: The executing agencies and AID shall jointly program anticipated AID loan commitments or expenditures for 1975 and Borrower and Executing Agencies shall provide evidence of their contribution to each activity financed hereunder for the Calendar Year 1975.
- d) Concerning the Model Agrarian Fund Activity:
 - (i) Prior to Initial Loan Disbursement:
 - a. A "Model Agrarian Fund" shall be established in the National Development Bank. The executing agencies and AID shall concur in writing in the policies and procedures to govern Fund operations, and in a financial plan for Fund uses and Borrower's and AID's inputs into the Fund over the period of the program.
 - b. Final selection of the initial "asentamientos" to be the recipients of Fund resources will be made in accordance with criteria established by the executing agencies and AID, and both parties shall concur in writing in their selection.
 - c. The executing agencies shall agree to their respective responsibilities in the implementation of the activity including the level and nature of resources to be provided by each institution and AID and the executing agencies shall concur in writing in this agreement.
 - (ii) Unless AID otherwise agrees in writing, Borrower shall maintain the level of resource inputs into the Fund throughout the period of the model program (1974-1978).

e) Concerning the Cooperatives and Associations Activity:

(i) Prior to Initial Loan Disbursement for Other Than Technical Assistance:

a. Borrower shall submit evidence satisfactory to AID and Borrower that Borrower shall provide for the purposes of the program \$1,500,000 in the form of budgetary transfers to the National Development Bank and a schedule for such transfers.

b. The National Development Bank shall have contracted for the services of two additional professional employees for the "Cooperatives Window" of the Bank.

c. The National Development Bank shall have established an advisory group to the Bank for cooperative leading representative of cooperative federations and other member-owned or non-profit institutions providing credit or other services to small farmers.

d. The National Development Bank shall have established two Funds: (1) Small Farmer Cooperative Production Credit Fund and (2) Small Farmer Cooperative Capital Development Fund; and Borrower and AID shall concur in the policies and procedures to govern the operations of said Funds and in a schedule for utilization of loan and Borrower inputs into the Funds for the period of the loan-financed program.

(ii) Unless AID otherwise agrees in writing, the National Development Bank and the Borrower shall maintain the level of resources provided from Loan Funds and Borrower inputs provided for hereunder into the Funds.

(iii) Unless AID otherwise agrees in writing, the small farmer cooperative Capital Development Fund shall not provide credit for marketing projects pending completion of a cooperative marketing plan.

f) Concerning the Agriculture Sector Coordination, Management, Planning and Evaluation Activity:

(i) Prior to Initial Disbursement:

a. The Executing Agencies shall implement an organiza-

tional plan for sector-wide coordination, planning, and evaluation, including the contracting of the chiefs of, a schedule for staffing for, and approved functional statements for each of the units for which technical assistance will be provided hereunder.

b. A plan for utilization of technical assistance and Borrower inputs for the purposes of this activity for the period of the Loan-financed program shall be prepared in form and substance mutually satisfactory to the executing agencies, Borrower and AID.

g) Concerning the Vehicle Maintenance Activity:

(i) Prior to Initial Disbursement for Other Than Technical Assistance

a. The Ministry of Natural Resources shall provide a current inventory of vehicles and spare parts and shall submit same for AID's review.

b. The Ministry of Natural Resources shall prepare a time-phased plan for the construction and staffing of shops and procurement of equipment; and AID and Borrower shall concur in the Plan.

c. The Ministry of Natural Resources shall have established a spare parts inventory control system.

h) Concerning the Improved Seed System Activity:

(i) Prior to Initial Disbursement

a. A revolving fund shall be established in the National Development Bank with initial capital of at least \$25,000 for the purposes hereunder, and the Ministry of Natural Resources and the National Development Bank shall agree to and AID shall concur in writing in, the policies and procedures to govern fund operations.

b. The executing agencies shall establish a seed production schedule for 1975 and submit such schedule to AID, as well as a plan for loan and Borrower resource inputs into the fund for 1975 and throughout the remainder of the loan disbursement period.

c. Unless A.I.D. otherwise agrees in writing, the National Development Bank and the Borrower shall maintain the level of resources provided from loan funds and Borrower inputs provided for hereunder into the Fund.

i) Concerning the Agriculture Education Activity:

(i) Prior to Initial Disbursement:

a. The Coordinating Committee of the executing agencies and AID shall concur in writing as to the policies and procedures governing selection of participants, and responsibilities of participants and the executing agencies for the purposes hereunder.

b. The executing agencies shall contract for services in connection with administration of the activity, and they and AID shall concur in writing as to the terms and conditions of said contract.

j) Concerning the Access Road Activity:

(i) The executing agencies shall prepare a plan for access road construction and improvement for the model asentamiento activity to be executed with Loan funds, including plans of the Ministry of Communications and Public Works to provide personnel and other resources for construction and maintenance for the program, and they and AID shall concur in the plan, and in the criteria for selection of asentamientos included in the plan.

k) Prior to continued loan commitments in 1976, 1977 and 1978, the Coordinating Committee of the Executing Agencies and AID shall have evaluated the prior year's activity, and with Borrower, jointly programmed in writing utilization of loan funds and related Borrower's contribution for the succeeding year.

l) Borrower shall covenant to maintain the level of Borrower and AID resource inputs into the Gains Stabilization Fund provided for pursuant to AID Loan 021.

m) Borrower shall covenant to undertake an analysis of the interest rate structure to determine what interest rate levels may be charged for credit directed to the agricultural sector, recognizing that present policy is to offer credit at preferential interest rates.

CAPITAL ASSISTANCE COMMITTEE

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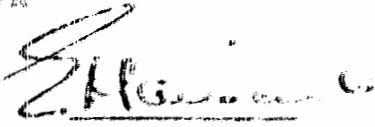
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May 31, 1974

PART TWO - THE SECTOR PROGRAM

SECTION I - SECTOR PROGRAM BACKGROUND

A. Previous A.I.D. Assistance

The A.I.D. effort in Honduras over the past ten years has become increasingly oriented towards the rural population and the agriculture sector. Of the twelve loans made by A.I.D. (\$40.4 million) since 1963, eight have been directed at problems within these two foci, and of the four presently active, two: Agriculture Credit and Storage, and Grain Marketing, are directly related to key areas within the COB sector program.

A.I.D. grant assistance currently finances an on-going sector analytical effort and concentrates on the four core institutions in the sector. The Mission will propose an expansion of grant assistance to intensify its efforts in this area and to include provision for cooperative institutional development.

B. The Sector Analytical Effort

1. The Analysis

The Sector analysis effort in Honduras has progressed through three distinct stages, its underlying purpose to improve the internal capability of the GOH to develop agricultural development plans on a firm analytical base.

In the summer of 1972, the first agreement for the sector analysis was signed by the GOH and the USAID. This agreement was preceded by several months of protracted negotiations between the USAID and the GOH. The Superior Planning Council was completing the six year National Development Plan, 1972-77, and there were strong reservations concerning the utility of embarking on a new analytical effort. Several GOH officials argued the need for specific project development within the guidelines of the then recently completed plan. The Ministry of Agriculture viewed the analysis project as a means to assume a more active role in the execution of the National Development Plan. A compromise was reached and the first stage of the project was launched with a two-fold purpose: (a) The design of projects for implementation in support of the National Development Plan 1972-77 and (b) the development of a broad macro-oriented national model to estimate marginal contributions (shadow prices) of crops and livestock activities (present or potential) in terms of national goals of production, value added, employment and net farmer income.

The first stage produced the following studies:

1. Sector coordination
2. Grapefruit and lemon
3. Corn and Beans
4. Sorghum
5. Rice
6. Agricultural Education
7. Model II

The Sector coordination report was the initial step in the eventual formation of the high level coordinating committee of agricultural public institutions (COCO or CONADE). The agriculture production projects, grapefruit and lemon, corn and beans, sorghum and rice, are

ready for financing. The agricultural education paper is serving as the analytical base and project outline for an agricultural education project now in the final stages of negotiation with the World Bank, and it provides a basis, as well, for inputs proposed under this loan. Model II, a national linear programming model (Model I was a preliminary test of the linear programming methodology in the Honduran context) provided a rank-order list of agricultural activities according to their contribution to national goals. And it developed the first estimate of the severity of the employment problem in the rural sector.

Apart from its analytical results, the model proved to be a valuable programming tool providing estimates of yields and resource requirements for almost all contemporary crops in one volume. This first stage was successful in its output, but the goal of implanting analytical skills within the COE planning process was not achieved. This failure resulted even though the original sector analysis team (ASA) included representatives of the major agriculture sector institutions: the Ministry of Agriculture, the Superior Council for Economic Planning, the National Development Bank and the National Agrarian Institute. The problem was that the ASA team remained organizationally outside the mainstream of the decision-making process.

As the second phase began, the project development portion of the team was eliminated and the team began to concentrate on a longer-term analytical effort. Building on the analytical experience of the team, the second-phase effort concentrated on the development of a macro-oriented national linear programming model directed towards the evaluation of existing agricultural policy and its impact on farmer income, employment, foreign exchange earnings and total production. In a methodological break from Model II, which was a normative model, the objective was to make Model III a positive model, one capable of prediction. A prerequisite to Model III was intensive field investigation and research into the treatment of certain variables such as capital, labor, and other farm inputs. Data collection and designs were

completed in late 1973 and computer runs were made in Washington in December 1973. Model III results have not yet been published.

Stage III was precipitated by the GOH focus on regional development emphasizing the Asentamiento Program. While the results of Stage II were useful to macro-level policy formulation, it was thought that more immediate benefits would be forthcoming by concentrating on the analytical problems of the priority regions. To facilitate the integration of the analysis into the planning system the analysis team was incorporated within the Office of Sector Planning of the Ministry of Agriculture. There they will provide an analytical resource for the Ministry and the Coordinating Committee of the Rural Sector Program. The Sector analysis team will continue its efforts throughout the Plan period. Thus the original goal of the sector analysis project will be achieved for at least the next four years. What happens after this period will depend in large measure on the importance and utility of sector analysis as perceived by the GOH.

2. The Assessment

A. Background

During the spring of 1973, it was decided that USAID would prepare an assessment of the agriculture sector in Honduras to provide a firmer base for an A.I.D. sector loan. The assessment which we incorporate herein by reference was reviewed by the DAEC in October 1973 along with various financing proposals (cadaster IRR, cadaster pilot grant, rural sector IRR and Core Services PROP).

The DAEC found that the Assessment provided a good description of the sector but did not provide a complete basis for A.I.D. sector programming. The DAEC set forth the following requirements as a prerequisite to approval of sector program financing: (A) review of GOH policies affecting the small farmer; (B) identification of GOH actions required to mount a successful program to address the rural poor; (C) clarification of the target group definition; and (D) development of a negotiating posture

which would formulate an approach by which GOH actions identified as critical would most probably be taken.

B. Assessment Content Summary

The general findings of the assessment are very briefly summarized herein along with a summary of the constraints to sector development identified by the assessment. The reader is referred to the Assessment (LA/DR-DACC/P-7415) for an elaboration of this information.

Role of Agriculture Sector: Honduras, the poorest country in Central America has exhibited the poorest performance in food production. Nevertheless, the Honduran agriculture sector is the major contributor to the country's GNP (36%) and agriculture accounts for the bulk of Honduran export earnings (some 75 per cent). Production Characteristics: Dualism prevails with a relatively small but productive commercial group and a proportionately great number of traditional farmers, the net effect of which is low overall productivity. Marketing: Marketing channels exhibit the same dualism found in production. Rural Poverty: The majority of the rural population which comprises some 70 per cent of the country's inhabitants does not have sufficient cash income to participate in markets for manufactured goods or higher valued food products. Rural family income averages some \$250 annually. While half the new jobs required before 1990 will be rural and while the role of agriculture sector in generating employment is crucial, the sector labor requirements never exceed 60% of the estimated available rural labor force dropping in some months to below 10 per cent. The major health problems of Honduras - malnutrition and communicable diseases - are particularly severe in rural Honduras with morbidity and mortality rates often over 50 per cent higher than those in urban areas. Education opportunities for the rural population are severely limited. Land Characteristics: Only some 8 per cent of total land area is suitable for intensive cultivation and approximately 50 per cent is suitable for tropical hardwoods or pine. The present use of land is well below potential: some 50 per cent of small farmers work fewer than four manzanas. Institutions: Public sector institutions are plagued by internal

inefficiencies and a notable lack of coordination among them. Small farmer organizations have begun to develop, but the overall institutional structure is constrained in its capacity to extend credit and services to the rural poor.

The Assessment identified the following constraints ranked in order of importance in their effects on inhibiting growth of the sector:

1. Land Tenure and Farm Size

The present structure presents three basic characteristics that impede progress.

(a) Farm Size: Of the 178,000 farms reported in the 1965 census, 120,000 farms had less than 5 manzanas. This large number of small production units - and their wide geographic dispersion - compounds the problem of public delivery systems - extension, credit, marketing, etc. Likewise, the small land base limits potential family income.

(b) Land Use Patterns: Most small holdings are relegated to marginal lands. Small plots on hillsides (up to a slope of fifty degrees) are common throughout the country. These plots offer almost no future for production of annual crops.

(c) Land Ownership (Tenancy): Compounding the problems discussed in points (a) and (b) is the present tenancy pattern. Only 22% of the farms are owner-operated. Under these conditions the incentive for capital improvements is weak.

The lack of a national cadaster and a national registry system seriously impedes not only agrarian reform efforts but also the orderly disbursement of agricultural credit. In some areas of the country, clear delineation of public or private lands is impossible without expensive and time consuming investigation of scarce records and field interviews. The lack of a clear title on private land is often grounds for the rejection of bank loan applications.

The large number of small farms on marginal lands, the rapid growth of the population, and the cloudy delineation of properties have produced, in certain regions, land invasions by the peasants. These invasions may be of national lands (following a logging road, for example) or of private land. The invasions produced a serious political problem for the previous administration and promise the same for the present administration unless remedial measures are taken.

2. Manpower

Manpower shortages are most acute in three categories:

(a) The supply of qualified people to manage agricultural related enterprises, public and private, falls short of present demand. Although low Government salaries are in part responsible for shortages in the public sector, private enterprises have reported similar difficulties in hiring qualified people.

(b) The below-college and intermediate technician is the backbone of an extension program, the Government's final link in programs designed to benefit rural inhabitants. These technicians are used by the Agrarian Reform Institute, the National Development Bank, and the Ministry of Natural Resources. The success or failure of Government programs often depends on the field men it can use to implement them.

In addition, the private sector is demanding more trained personnel for expanding agricultural supply and credit activities. The recent increase in commercial bank lending to the agricultural sector has increased the demand for middle level agricultural technicians.

(c) The educational resources of the farmer clients are also inadequate. The illiteracy rate is high in the rural areas and practical experience with modern technologies is extremely limited. This places a heavy burden on the transmission of new information. Extension personnel cannot rely only on the written word for information transmission. Oral presentations and field demonstrations are a necessity; with the number of field personnel being so limited, new methods must be developed

for information delivery.

3. Institutional Constraints

(a) Budgetary: GOH officials working in the agricultural sector have repeatedly stressed the constraint placed upon them by inadequate budgets. Field personnel for the Ministry of Natural Resources are often prevented from carrying out operational functions due to lack of funds. Some institutional budgets allocated as much as eighty per cent for salaries, leaving little for operational expenses.

(b) Personnel Policies: Low government pay schedules have limited the quantity and, perhaps more importantly, the quality of technicians available to the public sector. Attempts have been made to adjust government regulated salary rates but no progress has been made.

(c) Coordination: Coordination of major institutional activity is a major problem. In a recent critique of the agricultural sector, a consultant for the UNDP pointed out that "...the fundamental characteristic of the GOH institutional matrix was the lack of coordination." Each major institution conducts its own planning process to guide its operations. Little regard is given to either the content or geographic location of programs of other institutions. The result is duplication of effort and waste of scarce resources. As pointed out by the UNDP, "cases of contradicting activities in the same sector are not uncommon."

(d) Delivery Systems: While it now is widely accepted by GOH officials that project implementation must be fully integrated to provide credit, farm supplies, and technical assistance, this acceptance is not manifested in actual practice. Working arrangements have been agreed upon between institutions, but integration has not reached the point where expected benefits have been achieved. The net result is inefficiencies in the field. The farmer gains little. Even the more traditional concepts of delivery systems, i.e., each institution specializing in certain services without considering the interrelationship with other agencies, is plagued by problems. Poor problem definition and weak management

are the result of the constraints discussed above. There has been little effort expended on the evaluation and consequent redesign of on-going projects.

(e) Policy: The consensus on higher ordered goals does not ameliorate the problems of coordination, budgets, etc. The lack of a clear, common strategy will continue to add to the difficulties of mounting an effective, efficient development program.

4. Markets and Marketing

Two serious constraints are evident in the marketing of Honduran products: (1) the inefficient movement of goods from producer to consumer and (2) the small effective internal demand for agricultural products.

(a) With the high cost of marketing evident between producers and consumers (including both product losses due to inadequate storage and handling facilities and high cost transport) the consumer pays more for his goods and the farmer receives less for his product. The net result is that production is below what the potential could be if an efficient marketing network existed. The present shortage of marketing infrastructure taxes both consumers and producers.

(b) The limited internal demand for agricultural products seriously impedes the growth of the agricultural sector. The present distribution of buying power forces the majority of families to devote the bulk of their income for basic subsistence items. High valued products such as vegetables, fruits and meats are often priced out of the typical family budget. This low effective demand (coupled with the shortage of refrigerated storage facilities to smooth out the supply) inhibits producers in expanding production or moving into the production of fruits and vegetables. Presently, the only effective escape valve is the export market.

5. Credit

A credit constraint exists on two levels: (1) a shortage of institutional loanable funds and (2) deficiencies in the delivery system.

(a) The quantity of institutional credit available presently services approximately ten per cent of the farms in Honduras. The remaining farms must rely on private savings or non-institutional sources. Reported interest rates of forty per cent for non-institutional loans are not uncommon. To incorporate these farmers into the institutional credit system is an arduous and expensive task.

(b) Efforts to reach more farmers have been primarily concentrated in the National Development Bank. But a supervised credit program requires a large component of trained manpower, a scarce resource in Honduras. Although notable improvements have been made in the small farmer credit program, the loan process is still a lengthy operation.

6. Climatic Conditions

Even though Honduras has ample resources, their use is restricted by climatic conditions. Apart from pest and fungus problems in cultivation and storage, rainfall patterns seriously limit the full use of resources. Seasonal unemployment is a direct consequence of the cyclical nature of water availability.

In the face of these problems only a concerted and continuing effort of public sector institutions with the strong support of key private sector institutions could begin to address the conditions of rural poverty in Honduras.

C. Progress since the Assessment

Since the Assessment document was reviewed, a number of significant events occurred. The creation of a senior coordinating mechanism resulted in a much firmer political commitment to the undertaking of a broad rural development effort with agrarian reform at its center. On the first of January, the Chief of State devoted his annual State of the Union message to the thrust of a new development policy of the GOH to attack the problems of rural poverty. The speech included a firm political commitment to agrarian reform. A National Plan for agriculture sector development has since been

published.

The budget for agriculture sector institutions has been increased dramatically for 1974 and the Government is about to enact an agrarian law. There can be no doubt surrounding the commitment of the GOH to deal with the problems of the sector as identified and discussed above with the objective of ameliorating the conditions of rural poverty in the country. Plans are being developed (The Agriculture Sector Development Plan has just been cleared) and programs being designed to translate this commitment to action. What remains is to secure financing for these programs, to design and implement them soundly; to evaluate their efficacy and to modify them as experience suggests.

The following chapter describes the broad outlines of the GOH Agriculture Sector Development Plan.

3. The GOH Agriculture Sector Development Plan

The GOH recently released its five year plan for Agriculture Sector Development. While containing some of the weaknesses normally inherent in such documents, it is a plan which sets out quite clearly the objectives, priorities, strategy and concrete programs which, if carried out properly, would accelerate the development of the sector while advancing social goals. Although many of the Plan's targets are extremely ambitious given the institutional and financial constraints which exist, they nevertheless can serve to concentrate available resources to produce effective results. As public sector capabilities in rural development improve, as sector analysis continues, and as the process of implementing and evaluating the effects of the Plan's programs develops experience, a new set of targets can be established on a sounder analytical foundation. The major elements of the Plan are summarized below:

A. Objectives:

In summary the GOH objective is to generate an accelerated and sustained rate of agriculture sector growth through increased productivity, improved land use, integration of the peasant into the development process, and concentration of development efforts.

B. Strategy

The GOH strategy is to concentrate development efforts on groups of small farmers within selected regions where existing infrastructure is well developed. At the center of the strategy is an agrarian reform policy which while establishing social utility criteria for land use has set a target of resettling over 100,000 peasant families on 600,000 hectares during the period of the Plan. Lands which are unutilized or under-utilized will be expropriated for use of "Asentamientos".

The Plan strategy is to employ intermediate levels of technology (improved seed, fertilizer, pesticides and a minimum amount of mechanization) so that employment can be maximized while productivity is increased. Mechanization will not be encouraged except for land clearing and reclamation, irrigation pumping and for farm machinery only in regions of low population density and labor or animal supply shortage.

Farmer group formation will be given impetus by the GOH. For example, INA will give almost exclusive priority to establishment of asentamientos and their development into member-owned and managed organizations. The Directorate of Cooperative Development will reinforce private sector efforts to strengthen the organization of existing

cooperatives and develop other groups into legally organized and functioning cooperatives. Federations of groups will be encouraged to play an increasingly important role in channeling credit, technical assistance farm inputs and marketing services to their member groups.

C. Priorities

The Plan emphasizes the production of crops important to the domestic market but which also have considerable export potential. Among the products emphasized are corn, beans, oil seeds, meat, milk, cotton, sugar cane, and tropical fruits. It is likely that rice and grain sorghum will also be included among these products.

Priority regions have been established by the Plan, selected on the basis of their potential to respond rapidly to yield-increasing inputs (farm inputs facilitated by increased credit availability). A further selection criterion is the existence of infrastructure adequate to handle the increased supply and marketing requirements which will result from development efforts. Thus most required infrastructure is now in place save for access roads to open pockets of potential within the selected regions. In brief, the basic concept underlying selection of the regions was to identify potential "growth centers" with the intention of concentrating development efforts within their areas of influence. Thus the priority regions will be the primary focus of assistance to small farmer groups. The precise nature and shape of this assistance is the subject of programs now being designed. Beyond assistance in the production and marketing process, a specific program being developed inter alia to generate employment is one for access road improvement and construction from centers or sub-centers of growth into potentially productive zones of influence.

D. Public Sector Institutions

Public sector institutions are being mobilized to transform the Plan into action programs. Key units such as the extension service are being expanded while the functions of the institutions and relationships among them are being rationalized.

The National Council for Agricultural Development (COCO, or CONADE) has been established to coordinate sector policy and programs at the national level. Regional coordinating committees are also being established composed of the CONADE group representatives at the regional level led by the Regional Director of the Ministry. Municipal and regional juntas (composed of private sector and government and municipal representatives) are being created to serve as a medium through which

private sector groups can collaborate in the development process.

E. Marketing

The Plan does not elaborate a great deal of substance on the subject of marketing improvement understandably because the analytical base of policy development is still quite weak. The Plan specifically mentions the marketing study now underway with cooperation of the Canadian Government, which will provide the basis for an action program to improve the country's marketing system.

Meanwhile, the marketing division of the Banco Nacional de Fomento will be expanded and if justified, eventually converted into an autonomous agricultural marketing enterprise. The BNF will also expand its marketing system for farm inputs.

The Government will encourage the development of producers' associations, grading and classification systems and the processing of agricultural produce.

F. Credit

The allocation of credit through the Banco Nacional de Fomento will reflect the emphasis given to small farmers and particularly to the beneficiaries of the agrarian reform. Geographically, the selected regions previously mentioned will command priority in the allocation of credit. Credit to small farmer groups will be packaged with technical assistance through the concentrated efforts of the BNF, Ministry of Agriculture and IMA.

The Central Bank will establish special lines of credit to stimulate the participation of Commercial banks in various areas of agriculture sector lending. The interest rate limitations for the sector will be similar to those of other sectors.

G. Plan Resource Requirements

The Plan contemplates L. 372 million of total expenditures in the Agricultural Sector, of which L. 129 million would be externally financed. Real investment during 1974 - 1978 is fixed at L. 85.0 million, financial investment is programmed at L. 141.9 million, and current expenditures at L. 116.0 million. Total expenditures are programmed to decline from L. 80.7 million in 1974 to L. 76.1 million in 1978. Similarly, financial investment is programmed to decline from L. 43.6 million in 1974 to L. 21.4 million in 1978. Current expenditures on the other hand, are programmed to increase at the rate of 17.9% per

annum from L. 22.0 million in 1974 to L. 35.8 million in 1978. (See Tables 1 through 4, Annex II, Exhibit A which allocate these expenditures by institution).

It is clear from the above that if the 1974 level were achieved, sustaining it should not pose inordinate problems, at least financially. It is improbable that the 1974 level of investment will be reached however, and there will undoubtedly be considerable "slippage" in the Plan's execution.

Of all sectors in the Honduran public sector spectrum, the agricultural sector has historically had the lowest levels of the plan implementation. This is illustrated by Table I below.

Table I--

Percent of Budgeted Public Investment
Executed by Sector, 1960-1972

<u>SECTOR</u>	<u>PERCENT EXECUTED</u>
Agriculture and Forestry .	35
Electrical Energy	80
Transport	62
Communications	80
Housing	70
Education	62
Health	52
Urban Development and Local Governments	64
All Sectors	62

Source: COH Planning Council

Perhaps the major reason for this low level of plan implementation was the indecision or ineffectiveness of the GOH on the question of Agrarian Reform. Thus expenditures and investments related to the Agrarian Reform were programmed but were carried out in only limited fashion. In addition to the foregoing, institutional, technical, and managerial bottlenecks also contributed to restraining the level of plan implementation.

The GOH is taking concrete measures described in other parts of this paper to improve sectoral implementation capability and the Agrarian Reform is now a fact. It is likely then that the primary historical reasons for low plan implementation are no longer operative. Even so, during the 1970-1972 period (the last for which reliable estimates exist), real investment in the agricultural sector averaged less than L. 10 million a year. During the period of the Plan, real investment in the sector is programmed at an average of L. 20.4 million per year, which is a significant increase. (See Table 5 of Annex II, Exhibit A) Table I compares the programmed investment in the sector under the 1970-1974 Investment Plan to that programmed under the 1974-1978 Development Plan. The Investment Plan programmed total investment (real and financial) in the sector at an average of L. 23.0 million per annum. This compares with a level of L. 45.3 million per annum during the 1974-1978 plan. This comparison, then, also shows a significant increase during the new Plan.

In conclusion, the Agricultural Sector Plan, 1974-1978 is ambitious, but it appears feasible. Its successful implementation will put a strain on the existing institutional, technical, and managerial resources of the sector. The financial factor (assuming sufficient external financing is available) should not be an important constraint. There appears to be a new quality of leadership and coordination in the sector which is completed with a new sense of urgency about the Agrarian Reform. These key factors have not been present in the past and will, no doubt, contribute greatly in facilitating plan implementation.

TABLE II

COMPARISON OF PUBLIC SECTOR PLANNED INVESTMENT IN THE AGRICULTURAL SECTOR UNDER THE
1970-1974 INVESTMENT PLAN AND THE 1974-1978 DEVELOPMENT PLAN (MILLIONS OF LEMPIRAS)

	Investment Plan, 1970-1974 <u>1/</u>		Development Plan, 1974-1978 <u>1/</u>	
	1970-1974, Total	1970-1974 Annual Average	1974-1978, Total	1974-1978, Annual Average
Real Investment <u>2/</u>	42.6	9.7	85.0	17.0
Financial Investment <u>3/</u>	66.2	13.3	141.4	28.3
TOTAL, INVESTMENT	114.8	23.0	226.4	45.3

Notes: 1/ Includes investment in Forestry, but excluded L. 158.1 million programmed for Pulp and Paper project and other Forestry - Industry projects during the Plan.

2/ Investment in infrastructure, plant and equipment.

3/ Generally, credit channeled through ICI's.

Source: GOH Planning Council

C. Program Justification

1. National Development Priorities and Role of the Agricultural Sector in Perspective

Over the past several years Government programs have concentrated on costly projects aimed at overcoming basic infrastructure deficiencies. Such programs have absorbed a large proportion of Honduras' investment budget and some two thirds of all international agency lending. While expansion of basic infrastructure has been significant, it has become clear to government planners and high officials that investment in government services and facilities related to agricultural production and the resolution of land productivity/tenancy problems are needed to realize the full potential of these infrastructure investments.

When the present government came to power in December 1972, the campesino's situation was particularly severe. Drought, disputes over land ownership and use, and the general neglect of campesino needs were causing widespread disruption of productive activities. To alleviate the immediate problem an interim land redistribution program was initiated under Decree No. 8.

In his New Year's address to the nation in January 1974, the Chief of State presented the explicit goals of the Plan. They include, among others:

- a) Ensuring each person a level of income adequate to basic needs;
- b) Lowering permanently the level of unemployment and underemployment;
- c) Improving the quality of life for the rural population;
- d) Achieving a more equitable distribution of income and assets; and
- e) Transforming the productive structure to diversify it to achieve a sustained growth in national production.

The National Plan has been completed in draft and is presently undergoing revision by the Council of State. Although details of the program are consequently not fixed, the broad outlines are clear:

- 1) The National Plan will show a marked shift in GOH pri-

criticism towards the development of the agricultural and forestry sectors, with these sectors to receive a higher percentage of national investment. During the 1974-1978 period, programmed real public investment in these sectors is 12% of the total (excluding forest industry investment of about \$80 million); during the 1960-1972 period it was approximately 7% of the total (see Table 5, Annex II).

2) Planned investment in basic infrastructure such as transport, energy, and port facilities will necessarily remain high but will decrease in relative importance and will be more directly supportive of the productive sector (i.e., feeder roads, facilities related to agricultural and industrial projects, etc.). The National Plan programs 50% of real public investment into these areas, which absorbed 67% during the 1960-1972 period (see Table 5, Annex II).

3) Industrial projects will be more resource-based than in the past (i.e. emphasizing the transformation of mineral resources and agricultural and forestry products.

4) The social sectors (health, education, etc.) will place greater emphasis on nutrition and preventive medicine, and on vocational and other productivity-linked education. The share of the health and education sectors in the new plan will increase to 18% of total real public investment, compared to 12% during the 1960-1972 period.

5) The GON regional development framework will be incorporated into the majority of the Plan's sectoral programs.

6) A new program is included for strengthening the capacity of local governments to execute local infrastructure projects by means of financial and technical assistance channeled through BANSA.

In brief, the National Plan indicated a marked shift in priorities to the development of the agricultural and forestry sector with the peasant farmer to be the primary beneficiary and agent of its development.

2. A.I.D. Rural Poverty Policy

The Mutual Assistance and Cooperation Act of 1973 mandates an increased concern by A.I.D. for dealing with problems of the rural poor in addition to increasing food production. This Congressional mandate has been reflected in a series of actions in A.I.D./W designed to focus attention upon and guide program and project development toward rural development efforts to improve the quality of life and productivity of the rural poor. This sector program has been under development for two years; but the final program design, CAP preparation and negotiation have taken place in the context of developing A.I.D./W guidance on rural poverty activities. In this regard the Mission has been a participant in an interactive process of practical elaboration of rural poverty policy. The new concepts developed in this paper and the new practical approaches to operating problems which will be attempted in Honduras place this program at the forefront of rural poverty operations.

In short, this project is consistent with A.I.D. policy on rural development focus and practice; and indeed, may be a cutting edge for a number of new and experimental approaches to rural development programming. For example, the emerging interest in spatial theory is reflected in the project approach to access road selection and asentamiento clustering and the asentamiento activity itself with the provision for careful evaluation reflects a new action/research approach to dealing with problems of rapid and effective campesino organization building.

The program as a whole reflects a range of concerns from land tenure through new technology. It serves the poorest through the asentamiento effort. This is not yet an integrated program comprehending rural health, nutrition and education at this point. In the coming fiscal years, the Mission will present projects intended to phase into the rural development program additional efforts in health and education.

3. Place in Country Program

The latest Development Assistance Program prepared by the Mission states that A.I.D.'s principal area of concentration in Honduras will be rural development, focused specifically on improving the socio-economic standards of the rural man. In order to carry out its rural development program, the Mission is proposing this agricultural sector loan, a national cadaster loan, technical assistance to key agricultural institutions, and a municipal development (MAMMA) project focusing on rural municipalities. The Mission plans to intensify its focus on rural poverty by considering programs over the next two years in rural, informal education and rural health delivery systems.

4. Consistency with CIAP Recommendations and IBRD Country Study

The most recent CIAP Report on Honduras (March, 1973) was prepared shortly after the December 1972 change of government and concentrated on the need for administrative reform, particularly in agriculture, as a precondition to assistance. Since that time the Government has designed and initiated implementation of a reform of the Ministry of Natural Resources, has set up a coordinating committee for the agricultural sector with the representation of all key institutions, and has considerably increased the national budget commitment to agriculture sector institutions.

The most recent IBRD Report is based on analyses performed late in 1973, prior to the issuance of the National Plan. We understand its recommendations to be consistent with the Government's broad sectoral approach.

SECTION II - THE SECTOR PROGRAM - DESCRIPTION

A. Goal and Purpose

The overall goal of the sector program is to improve the well-being of the rural poor of Honduras. These people depend on agriculture for their \$125 to \$250 annual earnings as day laborers, subsistence farmers or small farmers with insignificant cash income. The Government of Honduras has decided to undertake a major effort to provide them resources which, if used effectively, can help them earn a significant improvement in their well-being. These resources include farm inputs, technical assistance and credit. In many cases, landless laborers will obtain land through the agrarian reform.

To carry out this ambitious task, the GOH is launching a major agrarian reform program and is mobilizing its agriculture sector institutions for the task. It is assisting in the creation of small farmer groups of various kinds, as it is thought that through groups public sector inputs can most effectively be used. Thus the development of public sector capacity to provide resources is to be matched by the organization of groups to utilize them. The GOH has neither the intention nor the capacity to undertake, itself, or control the mammoth organizational effort required to bring masses of peasants and small farmers into effective organizations. While group formation at the asentamiento level will be a responsibility of INA, the Honduran private cooperative movement will have enormous opportunities to organize at all levels of the cooperative system. A key to arriving at the goal of the program is the extent to which both private and public sector institutions can, in fact, develop their capacities rapidly and at somewhat the same pace.

The specific purposes of the sector program are (1) to support the effective expansion of Honduran institutional outreach to embrace increasing numbers of peasants and small farmers. This institutional outreach is viewed as an expanding mechanism comprehending public sector and farmer organizations through which knowledge and inputs for the farmer are facilitated. The key to successful extension of outreach is institutional development, the development of management skills and systems both in the public and private sector. (2) The loan program is also intended to support the GOH agrarian reform by providing management, technical and financial resources to assist in the effort and symbolically:

by the moral support this implies. Here again, a key to an effective program is the organization of the effort which will depend on the effectiveness and efficiency of agriculture sector management.

B. Program Description

1. Introduction

The multi-faceted program proposed herein is one whose elements are mutually supportive. Their unifying principles are the above-described purposes. The program does not pretend to meet the enormous financial requirements of the GOH plan. All funds available for Honduras are limited and the interest of other international financial agencies in Honduras is strong. Rather the program attempts to address critical sectoral constraints and institutional weaknesses and to seize on the opportunity to advance sectoral development with the peasant farmer at the center of the effort and at the forefront of progress.

The proposed program consists of credit programs and technical assistance designed to develop and reinforce the expanding mechanism which will bring increasing numbers of the rural poor into the productive mainstream of the country. Given the GOH emphasis on the organization of masses of small farmer through the Agrarian Reform, an A.I.D.-GOH financed model asentamiento activity will serve as an evolving prototype from which lessons may be learned even as the broader asentamiento program unfolds. A cooperative activity, while providing production credit for key institutions which emphasize independent small farmers and an experimental capital development fund, sets the groundwork for greater collaboration among the private institutions and closer cooperation between the movement and public sector institutions. It is this private institutional structure which eventually should absorb the farmer organizations being created through the Asentamiento Program.

The partially grant-funded coordination, management, planning and evaluation activity will help institutionalize capacity to enable the GOH to plan, organize and manage the sector effort. Technical assistance under this activity will focus in large part on the action programs financed under the loan. Tied in with the model asentamiento program which will be concentrated geographically in clusters located near poles of influence, is an access road activity.

This activity will provide better access for existing asentamientos and access for new asentamientos within the clusters selected for the model program.

Agriculture services including extension support, vehicle maintenance and an improved seed system will provide necessary support to the expanding outreach of the Ministry of Agriculture. Finally, an agriculture education activity will provide academically trained personnel for the public sector.

2. Small Farmer Credit Mechanisms

The activities proposed herein (Model Agrarian Fund and Cooperative Window) are directly supportive of the GOH strategy to provide credit and technology to groups of small farmers. The Mission had proposed in its Report for the DAEC in February, to pursue intensive review of experimental credit funds in the Central Bank and at the National Development Bank. The purposes of the funds would have been two-fold: (1) to encourage commercial bank lending to small farmers and (2) to test the cost-effectiveness of BNF Credit to small farmer clients.

The Central Bank has recently created a Fund for discounting commercial bank loans to small farmers and is negotiating an agreement with the Overseas Private Investment Corporation (OPIC) toward a guaranty program for the same purposes. Given these developments and the Mission's expectation that much of what was to be accomplished with the BNF experimental fund can result from institutional and farm level impact evaluation to be pursued under the program, the Mission decided not to pursue further intensive review of the experimental funds.

A discussion of small farmer credit delivery systems in Honduras may be found in Annex I, A.

a. Model Agrarian Fund (Summary)*

Purpose and Rationale

In response to campesino pressure, the GOH issued an emergency agrarian reform Decree in December 1972. Under this Decree, almost 16,000 landless campesino families have been settled on 373 "asentamientos" (settlements) located on government and underutilized private land through forced rentals. The

* See Annex I, B for a full description of this activity.

asentamiento program has become a major element of the GOH Agriculture Sector Development Plan which projects 958 asentamientos supporting about 73,000 families by 1978.

The most difficult obstacles to the ambitious objective of the GOH lie in the areas of rural organization formation and public sector management to support a large and rapidly growing Agrarian Reform Program. At the heart of the question of whether the Agrarian Reform can succeed is the problem of knowledge, skill and institutional capacity to deal with rural organizations. This sector program addresses these problems with a series of activities designed to promote the process of learning how to develop and manage a large-scale Agrarian Reform Program.

This activity, and related assistance provided for under the loan and by grant, support this learning process in terms of three broad functional areas: (1) As a laboratory for observation of techniques of organization and management of campesino groups; (2) As a training ground for individuals and institutions which are planning and will be executing the much larger Agrarian Reform operations even as the model program unfolds; and (3) as an action program justifiable on development grounds alone which demonstrates GOH and USAID commitments to improving the quality of life, as well as the incomes and productivity of the rural poor.

The emphasis is on the learning process in an ongoing action program - a learning process focused on requirements of the broader effort while assuring success of the field operations financed by the activity.

There are presently 373 asentamientos with 15,928 families on 61,676 manzanas of cultivated land, an average of 3.9 manzanas per family. The GOH targets for expansion will be difficult to meet both financially and managerially. The strategy of the A.I.D. financed phase of the asentamiento program is to select a high potential element of the total effort; and within this element to establish a model approach working within promising limits while evaluating the effect relative to a representative sample of asentamientos within the broader GOH program.

Activity Description

This activity provides for the production credit requirements of a selected sample of asentamientos and technical

assistance in business and social management as well in the use of credit. Technical Assistance in public sector management, planning and evaluation is provided for elsewhere in this loan or through grant funding.

The asentamientos to be included in the A.I.D. loan-financed project have been tentatively selected, based on criteria related to the economic productive potential of the asentamiento, on the apparent desire and ability of the farm families which comprise the group to work together towards resolving common problems, and on spatial considerations which will facilitate the flow of farm inputs, marketing and the development of management systems to deal with the program most effectively. The amount of land per family (at least three hectares) and the existence of access roads were also considered as well as the degree of consolidation of the group based on INA's experience. As a result, approximately forty asentamientos have been selected in four clusters, close enough together to provide efficient supporting services and to facilitate the management development process. The final selection will be made through field surveys as base-line data are collected in the Fall of 1974.

The 40 asentamientos include 1,576 families working on 10,454 manzanas who plan to plant 11,488 manzanas during 1975 (some lands will be double-cropped in corn and beans). A.I.D. loan (\$4.0 million) and GOH (\$2.5 million) funds will be disbursed through a BNF Model Agrarian Fund (separate and distinct from the broader Agrarian Fund) to finance farm production plans which are to be developed for each asentamiento with the assistance of the Ministry of Agriculture (DESAGRO) extension agent assigned to the asentamiento. INA agents will assist asentamiento management in dealing with social and organizational problems. This will include the maintenance of farm production, labor and cropping records, as well as working out a financial bookkeeping system (it is possible that asentamiento bookkeeping systems can be consolidated eventually within a cooperative of asentamientos). The farm plans will generally follow the pattern which is shown in the 1975 crop production plans of the tentatively selected forty asentamientos and analyzed in the profitability study (See Section III, B, 1). In most cases, the application of intermediate technology is considered to be the most profitable alternative consistent with the maximum use of labor.

A base-line study will be launched in the summer of 1974 to collect information which will serve to evaluate the project and guide the expansion of the activity to include approximately 70 asentamientos by CY 1978. A representative sample of asentamientos which are not financed directly under this project, but are the subject of the GOH asentamiento program as a whole will be included in the base-line study. The base-line study will be designed and repeated to reveal the changes in income and social variables of the participants in the asentamientos. The GOH also will conduct cost-of-production studies for possible crop and animal production enterprises and their alternative combinations to serve as the basis for improving farm plans for future crop years. The studies will provide information guides for policy decisions with respect to prices, credit and markets. Since one of the purposes of the model program is to test different approaches, the loan agreement annex will provide that the different organizational and tenure forms which will be evolving informally within the model program be encouraged to develop, consistent with the new legislation.

The additional asentamientos to be added to the project will be selected according to the initial criteria with the requirement that they be located in the near vicinity of the original forty to maintain the advantages of clustering. The possibility exists that an additional cluster will be established in the Coahuila Valley to develop a model for irrigated lands. The access roads to be financed under this loan will be constructed within the clusters selected. Production credit requirements for intermediate level technology include purchase of improved seeds, fertilizers, pesticides and similar chemical products. Labor intensive technology, which will be used here in the interests of creating the maximum number of jobs, holds machinery, equipment, and tractor power investments at a minimum level. On the other hand, total labor costs which reflect the minimum daily agricultural wage scales are relatively high.

All purchases of machinery, equipment, seeds, agrochemicals, etc. will be made from stock offered on local markets. Fund resources may be used to finance medium-term credit for swine, poultry and perennial crop enterprises as well as annual production credit. Annual production of cotton, sugar cane, coffee and tobacco, when they are properly part of the best alternative farm plan of the asentamiento, will be financed by the GOH contribution. The GOH contribution to this project will also include approximately 97 man-year of technical and administrative assistance assigned directly to the project asentamientos by INA and DESAGRO. At an average cost of \$5,000 per man year, this represents a direct contribution of approximately \$485,000.

FINANCIAL SUMMARY

\$(000)

	<u>A.I.D.</u>	<u>GOH</u>	<u>TOTAL</u>
Credit	\$4,000	\$2,500	\$6,500
Technical Assistance		485	485
	<u>\$4,000</u>	<u>\$2,985</u>	<u>\$6,985</u>

Additional Considerations

To guard against decapitalization of the fund during the period of the program, the GOH will agree to maintain the level of resource inputs into the fund. The final disposition of the fund (e.g., to transfer fund resources to the broader Agrarian Fund or to the Cooperatives Window) will be determined jointly at the termination of the program. The Ministry of Natural Resources, INA and the BNF will agree to their respective responsibilities for executing the program and policies and procedures concerning fund operations will be developed prior to disbursement of A.I.D. funds for the activity. A.I.D. funds will not be used to finance cotton, sugar, coffee or tobacco

b. The Cooperative Window (Summary)*

Purpose and Rationale

The purpose of this activity is to further the development of agricultural cooperative and similar organizations that can serve as effective instruments to deliver services of credit, technical assistance, marketing and supply of inputs to small farmers. The basic rationale for the activity is that approximately 150,000 Honduran small farmers cannot be effectively reached as individuals and that assistance on a broad scale is possible only through group organizations.

The activity is basically designed to complement the model asentamiento activity by providing assistance to the large number of small farmers who are not members of asentamientos. At the same time there is a very close tie between the two activities. Asentamientos are groups (cooperative-type group) both now and in whatever legal form they are ultimately constituted. Like other groups, they have need

* See Annex I, C for a full description of this activity.

to participate in the national, regional and zonal infrastructure of a cooperative movement. The program contemplates that they will fully share in this larger cooperative development.

The activity has been designed to provide credit and technical assistance through cooperative-type organizational forms that will have high immediate impact in assisting small farmers to improve their farming operations and to achieve higher levels of net income. At the same time, the program seeks to operate by means which will contribute substantially over the longer term to development of more rational and effective cooperative institutional systems. This attention to longer term objectives should facilitate not only more effective future programming and funding from external sources, but also the opportunity of small farmers to progress through their own self-help and to participate more extensively in the development process through institutions in which they have a voice.

Description of Program

The activity consists of two loan funds aggregating \$3.5 million entitled "Small Farmer Cooperative Production Credit Fund" (\$2 million) and "Small Farmer Cooperative Capital Development Fund" (\$1.5 million). The first fund will consist of \$1,000,000 of AID funds and \$1,000,000 contributed by GOH; the second will consist of \$1,000,000 of AID funds and \$500,000 contributed by GOH. Both funds will be administered by the Cooperative Window of the Banco Nacional de Fomento. In addition, the program contemplates technical assistance to the BNF and through the Dirección de Fomento Cooperativo to the cooperative movement to develop institutional capabilities allied to the use of the credit funds. AID funds will be provided to the window by the GOH as a capital grant. The GOH contribution will be in the form of budgetary transfers to the Bank.

The Small Farmer Cooperative Production Credit Fund of \$2.0 million will provide essential annual production credit (and some medium term assistance) for farmers who now have no access to institutional credit. These include primarily farmers who have not generally received land under government programs, although the size of farms cultivated by some may have benefitted by private land acquisition and the partial relief of pressure on land as a result of transfer of some cultivators of small parcels to asentamientos.

The organizations through which these farmers can be served that would be eligible to apply for loans under the fund are the following:

FOMENTO COOPERATIVO: This Government cooperative-development agency is providing continuing assistance to small farmer cooperatives and pre-cooperatives including (1) those of FECOAGROH (a Federation originally sponsored by AID) which includes 3000-4000 small farmers, principally in basic grains; (2) forestry-agricultural pre-coops of about 1000 members; and (3) fiber growing and processing pre-coops of about 800 members. Fomento Cooperativo and FECOAGROH have a praiseworthy plan of consolidating FECOAGROH coops on a zonal basis and expanding their outreach to additional communities in their respective zones.

FUNDHESA: This is a private fund raising organization related to a significant group of organizations with wide experience in rural development. This group of organizations is developing a program to provide a package of technical assistance and credit to small farmer groups through a corps of agronomists supplemented by "agricultural instructors" to be specifically trained to provide technical assistance to small farmer groups. This plan includes an existing capability of reaching farmers additionally through "radio school" agricultural programs. It has strong affiliations with a major campesino union (UNC) that should facilitate organization of groups with good internal cohesiveness and responsibility. FUNDHESA has loan and grant assistance from a variety of local and foreign institutions such as the Inter-American Foundation (IAF). FUNDHESA's plan is, many believe, somewhat ambitious as it hopes ultimately to organize and serve 30,000 - 50,000 small farmers.

CONACAL: This is the cooperative plan of ANACH, the leading campesino union. It is a small, well-organized and seasoned operation with excellent reputation in working with groups aggregating some 1,600 small farmers. It has current BNF and AIFLD support.

FACACH: This is the credit union federation, which is now organizing a program of direct credit somewhat along the lines of credit unions in other countries. It plans, however, to operate a somewhat more flexible program (e.g., to consider projects of group as well as individual farming) and to extend outreach to small farmers beyond its present membership, particularly those less advantaged. It

has the resources of the credit union movement (including loans from COLAC, AID and other sources) and grant funds from IAF for the program's technical assistance component. It hopes ultimately to reach 8000 small farmers.

In total these programs are seeking production credit aggregating well in excess of \$5 million. The activity now proposed allocates only \$2,000,000 for the Small Farmer Production Credit Fund among these organizations since an additional \$744,000 is being provided under a recent amendment to an existing A.I.D. loan (018) and since it would not be prudent to attempt to meet the total requirement. The Fund will offer loans to finance portions of programs against the presentation of loan applications supported by specific plans. The Fund will seek to apply some uniformity of criteria without impairing the distinctive style of each program. Principal among these criteria will be balance in coordinated provision of technical assistance and credit to the extent possible against specific plans; encouragement of regional or zonal concentration of effort rather than diffused activity; some provision for capitalization of loan funds; and interest rates of sub-lending that are essentially uniform and equitable among programs. AID loan funds will not be used to finance coffee, cotton, sugar or tobacco production.

The Small Farmer Cooperative Capital Development Fund of \$1.5 million will have two major objectives. The first will be to finance long-term productive investments that offer the greatest benefits relative to cost in moving significant groups of small marginal farmers a step up the income ladder. The fund will operate without pre-conceptions as to what kinds of investments are best. It will aim to select those offering the greatest prospect of significant impact and of contributing to experience in anticipation of later expansion of the program. It will also emphasize projects in which farmers will contribute some of their own labor to capital formation. While funds from AID sources will not be available for land purchase or for projects directly contributing to production of cotton, sugar, coffee and tobacco, BNF funds will not have this restriction. Further, it is anticipated that in some cases the fund will facilitate private sector financing of land acquisition by providing land improvement capital.

The other major objective of the capital fund will be to make a small but significant beginning in the development

of cooperative infrastructure to render efficient marketing and input supply services to small farmers. It is possible that these funds will be drawn upon by a proposed agricultural marketing/input supply union that will serve all cooperative and cooperative-type groups (including asentamientos). The funds will also be available for projects of less than national scope (at federation, regional or zonal levels) that will benefit significant groups of small farmers in marketing more effectively and in acquiring inputs more advantageously. Provision will be made to permit initial working capital for marketing organizations.

It is anticipated that approximately half of the \$1,500,000 in the Capital Development Fund will be used for production projects and half for marketing projects. However, this will be a guideline rather than a rule, and the division of funds will depend on relative demand and relative advantage as determined in the course of Fund administration. There is an anticipated level of demand in the first year of approximately \$4.8 million. Though many projects may prove weak or need to be reduced in scale, it is anticipated that the Fund will be rather quickly exhausted and will establish a need for additional financing. Sub-loans will be made directly by the BNF (Cooperative Window). AID approval of sub-loans over \$100,000 will be required. Technical assistance in support of loan-funded marketing project development and execution will be provided through this activity. Technical assistance for other loan-funded capital projects will be provided through the coordination, planning, management and evaluation activity of this loan.

Most of the loan financed technical assistance under this activity will be provided for the establishment of a cooperative agricultural marketing/input-supply master plan and long-term advice in its execution. It is possible that the organization of a cooperative "trading company" will result along the lines of the recent successful experience in establishing marketing unions in Costa Rica ("La Unión") and Paraguay ("Unipaco"). This approach permits attention to be concentrated on the supply of service rather than the organization of farmer groups at the bottom. Such groups already exist abundantly in Honduras. The aim is to serve them (and any new groups sponsored by the federations or other organizers) rather than to start a new cooperative movement. In any case, loan funds for marketing projects will not be disbursed until a plan has been completed for

marketing development within the cooperative system. The technical assistance team assigned to the cooperatives window and/or Fomento Cooperativo will work from the outset with the advice and assistance of the National Committee on Cooperative Integration, the forerunner of the proposed Honduras Confederation of Cooperatives.

Technical assistance will also be provided to the Banco Nacional de Fomento to assist in the development of its "cooperative window" as a specialized function within the Bank to contribute more effectively to assisting small farmer cooperative groups and allied organizations and in the larger development of a cooperative movement. The BNF will also be expected to contribute to this activity by increasing the staff of the cooperative window of its main office from one to three officers, designating an officer in each BNF branch as the primary contact on cooperative loans with the main office's Cooperative Window, and forming an advisory group of cooperative organization leaders to meet periodically with the Bank to advise on the needs of the cooperative movement in its economic development and other matters relating to the Window's program.

A third component of technical assistance, which will be grant funded, will involve assistance to Fomento Cooperativo of two short-term technicians (one cooperative specialist and one expert in design of simple business systems) for the development of new and simpler cooperative forms of organization that avoid the organization of weak cooperatives with juridical status at the village level, in favor of zonal cooperative-type organizations of greater institutional viability that can afford professional management. Such development should benefit new cooperative groups such as the asentamientos, as well as invigorate older ones. Additional grant-funded technical assistance will be required for equipment purchase and the preparation of course materials in connection with the training of agricultural instructors under the FACACH/FUNDESA programs.

Viewed as a whole, the technical assistance will contribute to immediate needs in improving the delivery of credit, technical assistance and marketing/input supply services through more effective institutional arrangements. Further, over the long term, it looks toward a more rational structuring of the cooperative/farmer group movement by amplifying the cooperative infrastructure at the top (cooperative banking and marketing/input supply) along lines consistent with

Honduran aims in establishing a Confederation of Honduran Cooperatives with affiliated service institutions, and by restructuring for greater efficiency at the bottom. This structure should not only improve efficiency, but also should give the small farmer a voice that can reach the top through organizations that represent him and are responsive to his interests and his needs.

Servicing the programs referred to above will place additional demands on Fomento Cooperativo - particularly the restructuring of FECOAGROH on a zonal basis, and participating in the projects relative to the study of a cooperative marketing plan and the development of new and simpler cooperative forms for small farmer groups. Accordingly, the GCH will increase the annual budget of this agency by \$100,000 (its present budget is approximately \$225,000 annually).

\$ MILLIONS

FINANCIAL SUMMARY

	<u>GCH</u>	<u>AID</u>	<u>TOTAL</u>
Production Credit Fund	1,000*	1,000	2,000
Capital Development Fund	500	1,000	1,500
Technical Assistance			
Marketing		265	265
Short term (12 MM)		(65)	(65)
Long term (3 MY)		(120)	(120)
Cooperative Window (2 MY)		(80)	(30)
	<u>1,500</u>	<u>2,265</u>	<u>3,765</u>

* Plus annual costs of two additional Cooperative Window professionals and an increase of \$100,000 in the annual budget of Fomento Cooperativo.

The Mission plans to submit a PROP for cooperative development in early FY1975. Given the demands on Mission staff for monitoring this activity, a personal services contractor or direct hire officer will be financed. Business systems analysts to assist Fomento Cooperativo will be provided for under the PROP as well as technical assistance in training agriculture technicians for FACACH and FUNDESA. Additionally, the PROP may provide for organizational costs and equipment for cooperative marketing organizations as well as for cooperative training.

3. Sector Coordination Management, Planning, and Evaluation

Purpose and Rationale

An objective of the sector program is to develop an institutional structure capable of implementing a nation-wide program of rural development and agrarian reform. To this end, new concepts of sectoral planning and management are being consolidated or will be introduced. If responsibility for sector planning and coordination were merely superimposed on the present structure of operating agencies, jurisdictional wrangling and execution of plans by units operating at cross purposes could result and seriously impede the implementation of plans; and poor quality of information-flows to planners could erode the quality of forward planning.

The organizational change process implicit in the sectoral approach must be integrated throughout all concerned agencies. Institutional changes of this nature cannot be accomplished by fiat without damaging the performance of the system as a whole. Thus the institutional change task is a dynamic process in which old patterns of influence and behavior are transformed over time to new patterns which are more in keeping with the needs of a modern sectoral management effort.

Whether the sectoral management system evolves as a series of independent agencies overlaid by a planning "think-tank" struggling to coordinate activities against resistance, or the system evolves as a coordinated set of entities sharing and supporting rationally determined goals, depends in part on the structure of this loan.

In keeping with this view, technical assistance support activities have been designed to conform with the following principles: 1) Planning, coordination and control are line management, not staff, functions; 2) Planning, coordination and control functions must be carried out at all levels, not only at the top of each agency; and 3) Data gathering, analysis, special studies, and technical assistance must be carried out as supporting activities responsive to needs and desires of line management. These propositions are especially essential where new analytical and managerial techniques are being tried.

Sectoral planning, management, and evaluation will be supported under the sector loan and the USAID grant program through

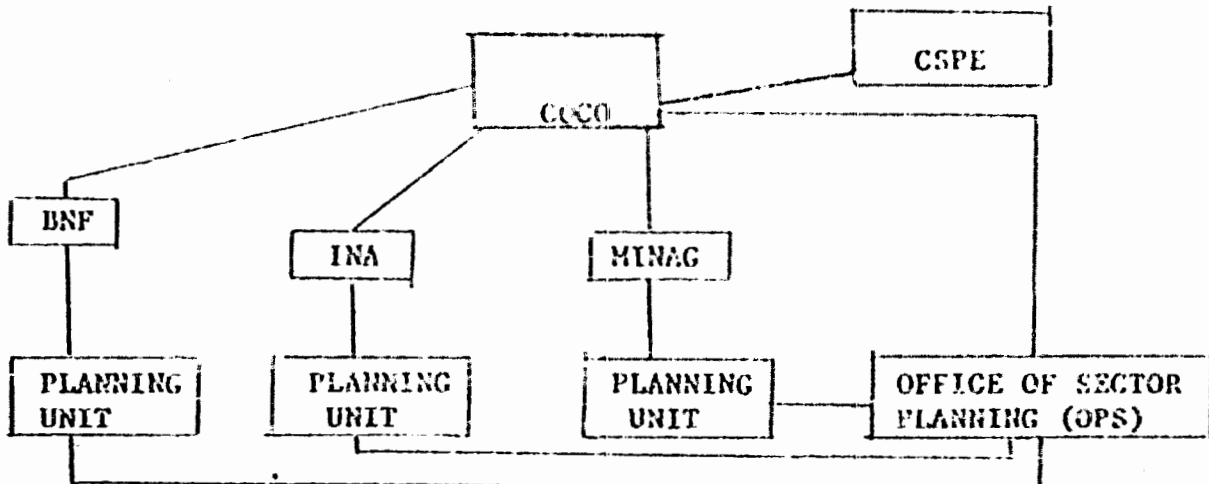
the activities described in succeeding pages.

Activity Description

A. Planning

The Superior Council for Economic Planning (CSPE) maintains the responsibility for global planning, establishing guidelines for public operations in each sector. Agriculture sector planning now will be the responsibility of a new Office of Sector Planning (OPS) working in close coordination with the Planning Unit of each sector institution. Present thinking places the OPS as the technical arm of the Agriculture Sector Coordinating Committee (COCO) under the leadership of the Ministry of Agriculture and including the National Development Bank, National Agrarian Institute, and Superior Council for Economic Planning. It will develop, in conjunction with each action agency, programming and evaluation for the sector; and it will coordinate planning, evaluation, analysis and execution for the sector as a whole within the guidelines stipulated by the CSPE. In this second function, it will seek to implant a uniform system of programming and evaluation and an information system for the sector. Thus, the GOH, through the Office of Sector Planning, will strengthen the individual planning units of the major institutions. Loan funds for planning will be directed to the OPS and the planning units of the respective COCO members. The relationship among these offices is shown in Figure I.

FIGURE I
PLANNING IN THE AGRICULTURAL SECTOR



Loan funds will be used to assist in the creation of an agricultural statistics section in the Office of Sector Planning, to finance the continuation of the Agricultural Sector Analysis group (ASA) as an analysis section within the OPS, and to contract for the design and execution of specific projects. The statistics section will provide the basic data for analysis. The analysis section will, among other responsibilities, identify and conduct pre-feasibility studies of agriculture-related projects. The respective planning units, through the OPS, will then have the possibility to contract the development of integrated projects and short-term technical assistance for implementation problems. Prior to initial disbursement of loan funds for these activities, firm GOB decisions will be required regarding responsibilities of the Office of Sectoral Planning and the planning units of the respective institutions. Proposed staffing patterns and budgets will also be required.

1. Statistics. The agricultural statistics section will depend primarily on other sources for data generation. Its function will be to collect, edit, store and publish information related to the agricultural sector. This information will then be available for the other planning units. There is presently no central location for storage and publication of agricultural statistics and analytical papers for general distribution. To complement existing data sources and to fill in data gaps the Section will conduct special sample surveys. It will supervise the data collection activities of the evaluation activity and maintain the information generated thereby. It will also develop and maintain a system of crop forecasting and time series of production, marketing, and productivity. The Section will require expertise in computer software and will rely on other GOB computer facilities for data manipulation and storage. Illustrative publications follow:

1. Time series of agricultural production and prices of specific crops.
2. Time series of productivity changes by crop.
3. Estimates of national herd size including slaughter rates, calving rates, etc.
4. Agricultural production by crop and regions.
5. Agricultural employment by crop and region.
6. Agricultural earnings by farm size, crop and region.

7. Short analytical studies on the marketing condition of specific agricultural products.
8. Studies of optimum farm size by regions.
9. Studies of risk including consideration of weather, disease, etc.

\$100,000 of loan funds will be allocated to the statistics section for technical assistance and salary support during the start-up period. The technical assistance will be directed towards development of a system for data collection, treatment, and maintenance. United States Department of Agriculture experience in agricultural statistics may be solicited through a loan-funded PASA agreement to provide the required technical assistance. \$40,000 will be provided for publication costs, computer software material and office equipment. \$30,000 will be used jointly with GOH funds to conduct special surveys of the small farmer socio-economic environment. These would include costs of production, employment, land tenure, and income by farm size.

TABLE I
STATISTICS SECTION 1975-78 (\$000)

	1975		1976		1977		1978	
	AID	GOH	AID	GOH	AID	GOH	AID	GOH
SALARIES (First year in-								
2 Professionals cludes local	12	14	4	16	4	16	0	20
2 Clerks contract	0	6	0	6	0	6	0	6
Support Costs personnel)	25	5	10	5	5	5	0	5
Technical Assist.	40		40					
(20 1981)								
Statistical samples	40	20	30	20	10	30	0	40
	117	45	84	47	19	57	0	71
AID \$ 220,000 (loan funded)								
GOH 220,000								
GRAND TOTAL \$ 440,000								

2. Analysis. The Agricultural Sector Analysis group (ASA) has been incorporated within the OPS to strengthen its analytical capability. This group has acquired valuable experience in analysis and will reinforce the analytical base for the development of sectoral plans. The group will conduct pre-feasibility studies of potential agricultural projects. The focus of its analyses will be biased in favor of small producers, asentamientos, cooperatives and the rural labor force in the priority regions of the country.

The following list is illustrative of the studies to be pursued:

1. Present agronomic practices for different agricultural activities by region.
2. Production alternatives for traditional producers.
3. The impact of credit on production, yields and income.
4. Farmer attitudes toward credit and technological change.
5. The impact of technical assistance on production, yields and income.
6. Employment generation of present technologies and expected manpower requirements of new technologies.
7. Methods to increase and stabilize rural employment throughout the year.
8. Effectiveness of different organizational structures for small farmer development.
9. Land tenure effects on production and productivity.

\$180,000 will be allocated from the loan for technical assistance and salary support. (Salaries for professionals will at least remain at their present level). Loan funds will be used to extend the presently grant-funded technical advisor of the ASA group and to contract special analytical skills for special studies.

Table III presents the expected budgetary expenditure for the 1974-78 period.

TABLE II
SECTOR ANALYSIS (\$000)

	1975		1976		1977		1978	
	AID	GOH	AID	GOH	AID	GOH	AID	GOH
SALARIES								
Professionals	<u>9.5</u> 9.5	27	18.5	22	15	25	10	30
Staff	<u>9.5*</u> 9	7	9	3	6	6	3	9
Technical Assistance (30MM)	<u>24*</u> 26		50		24		0	
	<u>87.5</u>	25	77.5	25	45	31	13	39

* AID Grant Funds to July 1, 1975

*AID Grant	\$ 43
AID Loan	130
GOH	<u>120</u>
	\$343

3. Project Development and Implementation. The OPS will contract private firms or institutions, Honduran or foreign, to identify potential action programs and to perform feasibility or pre-feasibility studies for projects to be financed or implemented by agricultural sector agencies. Loan funds will also be used to contract technical assistance to assist the executing agencies, public or private, to resolve problems encountered during implementation phase of projects underway or future projects. Special emphasis will be given to projects which promise a favorable impact on small farmer income and employment of the rural labor force.

The National Development Plan identified several possible projects which merited further study and would appear to have favorable income and employment characteristics for asentamientos or small farmer cooperatives.

TABLE III
PROJECT DEVELOPMENT (\$000)

<u>PROJECT</u>	<u>ESTIMATED COST PER PROJECT</u>
1. Vegetables	\$ 60
2. Spices	40
3. Tropical Fruits	100
4. Flowers	60
5. Highland Fruits	100
6. Small diversion or pump-type irrigation projects	40
7. Small scale agricultural processing	40
8. Crop insurance	50

Development of the projects will be financed from loan funds (60 per cent) and from GOH resources, with a total loan funded contribution of \$150,000 (GOH contribution - \$100,000). Loan funds may be used for local contractors but it is expected that such contracts would not exceed fifty percent of loan funded expenditures.

The use of these technical assistance funds will be closely coordinated with the Capital Development Fund provided for in the Cooperative activity (see section II B2 E). In connection with this fund, a minimum of twenty projects outside the area of marketing will be developed and will require specialized assistance for technical and implementation problems. Estimated requirements are 2 man-months per project at \$2,500/mo for a total of \$100,000, which the loan will finance.

A.I.D.	\$ 250,000
GOH	<u>100,000</u>
TOTAL	\$ 350,000

B. Management - (Grant Funded)

The GOH is making important changes within the institutions responsible for the management of the sector program and the relationships among them. The intent of the GOH leadership is clear. They wish to modernize agriculture sector management. Several constraints will make this task difficult to accomplish.

Fundamental among these constraints is the shortage of trained manpower for management which is often alleviated by drawing on technical personnel to occupy management positions. This is to be expected since agriculture technicians represent the greatest number of university trained personnel in the sector. While they are university trained in technical fields, they generally have little or no training in basic management techniques. They manage by instinct with varying degrees of efficiency.

A second constraint concerns the ability of the institutions to develop new systems adapted to the emerging new structure; e.g. reporting systems, personnel systems and mechanisms for arriving at consensus (the "nuts and bolts" of the management system).

Finally, the habits and attitudes of people who comprise institutions and who are comfortable with old patterns of influence and behavior should be recognized as constituting the most serious constraint in the process of change.

To address these constraints, grant technical assistance will be focussed in three areas: (1) management systems, (2) training, and (3) organizational development.

1. Management Systems. Contracted technical assistance will help design and install management systems ranging from simple bookkeeping methods to the complex procedures needed for interfacing with automatic data processing operations. Program reporting systems, delegation of authority techniques, payroll systems, market reporting systems, business planning procedures, and simple uniform financial analysis techniques for use by government personnel are areas where assistance will be needed.

The primary purpose of the systems will be to provide decision-makers with information they require to permit decision-making at all appropriate levels.

It is possible that the Instituto Interamericano de Ciencias Agrícolas (IICA) will be able to provide the required assistance under its A.I.D.-funded management program. Discussions between the COH and IICA have been initiated. The mission will explore the need for additional requirements beyond what IICA can provide with the intention of grant funding such requirements.

2. Management Training. Periodic seminars for managers led by management consultants qualified in relevant disciplines will be designed to encourage management personnel to view operations in the broad perspective of relationships of their activities to current and future needs of the Sector Program.

The seminars will also provide an opportunity to assess the pool of managerial talent and thus permit the GOH to plan more effectively for future managerial needs. They can also serve an operational function through discussion of problems and alternative solutions. An informal communication system encouraging experimentation and dissemination of information can thereby be established.

Given its proximity and experience in management training, the Instituto Centroamericano de Administración de Empresas (INCAE) is a likely source for the contracted technical assistance. The location of the seminars will be determined in contract negotiations but it is expected that some seminars will be conducted in-country and that the length of the seminars will not exceed one month. Estimated cost is \$75,000.

3. Organizational Development. In recent years applications of behavioral sciences to management operations have come into common use throughout the developed world and in many developing countries as well. Latin American countries have proven to be receptive to organization development techniques, in part because of the influence of INCAE.

A contract with an institution such as INCAE or a U.S. firm with Latin American experience is being contemplated. The contractor would, inter alia, train an internal OD staff to assist management at all levels but with particular emphasis on the management of the asentamiento program.

The contractors will train a limited staff which, in turn, will work with GOH personnel who provide the links between the GOH and the asentamientos. Initially the process will attempt to develop clearly stated social and organization goals drawing on the experience of field agents and their expectations with respect to performance of the asentamientos.

After goals are defined, indicators will be developed and, in some cases, quantified. The primary value flowing from this

process is the explicit articulation of a consensus of experienced technicians concerning the stages of development of the asentamiento organization which can provide the basis for the establishment of objectives. The process can then be extended to the complete sector program. The process then becomes one of team building within a "management by objectives" setting.

An additional benefit may be derived through careful documentation of the initial organization development process which, in effect, hypothesizes the stages of evolution of an asentamiento from an initial, unorganized period to the stage where special client status is no longer required. This documentation may be the basis for base-line social and organizational data which, through the follow-up surveys, may be analyzed to determine a correlation between stages of development of asentamientos and the resulting income produced, given the presence of other necessary factors. To serve this purpose, the organization development effort must begin within the next two months to coincide with or precede the design of the base-line survey.

The organizational development process has high benefit potential in terms of efficient management of the model program and of the broader program for which it serves as a prototype. It is also clear, however, that the process is experimental in nature. The social sciences generally have not developed methodologies to measure the types of social variables inherent in a development program such as this, such less to correlate the social and economic variables in a final evaluation.

Given the need for an early starting date of the organizational development activity, the experimental nature of the program, and the obvious strong linkages between the organizational development, management seminars, and management system activities, the Mission intends to grant finance the entire management component of the sector program under the Core Services PRGP and, where possible, use the services of IICA. The costs of the organizational development activity are estimated at \$150,000.

C. Evaluation

The goal of the sector program is to improve the quality of life of the rural poor. To achieve this goal, the AID loan funded sector program supports COH efforts to move public and private

resources to the target population through different credit and organizational mechanisms. The effectiveness of the different approaches will be the subject of comprehensive evaluation.

The evaluation activity is directed towards carrying out timely, realistic and useful evaluation on a continuing basis for components receiving assistance under the loan, but more importantly toward gauging the effectiveness of the overall program for GOH decision-makers. While the evaluation activity will fulfill A.I.D. reporting requirements (and increase knowledge of private farmer delivery systems) it will institutionalize the evaluation function within the planning process. To this end, the Office of Sectoral Planning, in conjunction with the respective planning units of sector agencies, will supervise the evaluation activities, initially through private contractors. The evaluation will be conducted on three levels: impact, institutional efficiency, and social and organization development. The first two will require contracted technical assistance and the last is incorporated within the Organizational Development component of the management activity.

1. Impact Evaluation

The impact evaluation is directed toward measurement of the increase in the standard of living of beneficiaries of the sector program. The primary focus of the evaluation will be to measure the income change, but will also include information on how the additional income is spent. The base-line survey will determine the income and wealth position at the onset of the program and, with follow-up surveys, measure the incremental income and income expenditures. On the spending side the focus will be on increased capitalization of the farm unit, education expenditures, food, housing and health.

In the case of individual farmer-borrowers, the evaluation is to be carried out at the farm level. In the case of farmer groups and asentamientos, the evaluation must be at both the group and individual level. The data and evaluation for the three cases will be kept separate to permit comparative evaluation of the effectiveness of alternative means to increase farmer's income and their respective costs.

Methodology for Evaluation

To establish a benchmark of the present income of rural inhabitants a base-line survey will be conducted. It will be

stratified into four major groups:

1. Asentamientos

All of the asentamientos finally selected for the model program will be included in the initial survey. A base-line survey will be conducted for each new asentamiento to join the pilot project. Another 20 asentamientos outside the model group will also be surveyed. The survey will include estimates of group assets.

2. Farmer Organizations

Agricultural cooperatives and other farmer organizations will be sampled to provide the benchmark income for the group. Groups from ANCOB, ANCOAH, FACOL, FUNDORSA, UNO and PROAGROB will be included. Group assets will also be estimated.

3. Individual Farmers

Within the priority regions, individual farmers who are clients of the banking system will be sampled to develop a representative profile, including identification of loans which, for one reason or another, were not accompanied by a formal structure of technical assistance.

4. Control Group

An additional sample will be drawn from the lower income strata of rural inhabitants. This group will serve as a comparative base point for evaluating the subsequent income impact of all elements of the sector program.

In the second and third year of the program the follow-up surveys will be limited to the model asentamientos and additions to the rural project. Except that the cooperatives will be surveyed in the second year. In the fourth and final year all groups will be sampled. It will be possible to evaluate the income impact of the program, according to type of organizations and level of resources spent, and to relate this to the non-participating control group. This information, along with the evaluation of institutional efficiency, will permit estimation of the cost-effectiveness of various means of channeling resources to the rural poor.

The base-line information must be collected before loan disbursements are made in order to present a clear profile of the

proposed beneficiaries before the program. Design of the questionnaires, sample selection, and field testing must be initiated in July or August in order to be in the field at the end of the agricultural year - November to January. For this reason the USAID intends to grant finance first year expenditures (\$91,125.). Follow-up surveys will be loan financed.

2. Institutional Efficiency

Each major institution has a clear area of responsibility in the provision of public services or resources for the sector program. The BNF is the credit source, the Ministry of Agriculture will provide technical assistance, and INA will promote and organize groups of small farmers. The tardy delivery or lack of any of these elements can seriously undermine the success of the program.

To provide a continual evaluation element, loan funds will be used to initiate a system of current reporting on the activities of each institution. The development of the system and initial training will be contracted. Contractors will work with GOH personnel to analyze and report on the activities of each institution. The reports will flow to the respective heads of each agency and to the CCOC. Table IV shows the cost of this component during the life of the program.

Schedule of Events for Impact Evaluation

Base-line	Year 0	<u>Type of Questionnaire</u>	
		<u>Group and Income Assets</u>	<u>Individual Income and Assets</u>
	<u>Group</u>		
1.	Model asentamientos	40	750
2.	Non-model asentamientos	20	375
3.	Cooperatives	30	350
4.	Individual borrowers	0	500
5.	Control group	0	500
		----- 90	----- 2475
Estimated cost per questionnaire		\$ 50	\$ 35
Estimated cost Year 1		\$ 4,500	\$ 86,625
Total Cost			
		\$ 31,125	
Year 1 Follow-Up Survey			
1.	Model asentamientos	40	750
	Total	----- 40	----- 750
Cost per questionnaire		\$ 35	\$ 25
Estimated Cost		1,400	18,750
Total Cost			
		\$ 19,150	
Year 2 Follow-Up Survey			
1.	Model asentamientos	40	900
2.	New model asentamientos	8	150
3.	Cooperatives	30	350
	Total	----- 78	----- 1400
Cost per questionnaire		\$ 35	\$ 25
		\$ 2,730	\$ 35,000
Total Cost			
		\$ 37,730	
Year 3 Follow-Up Survey			
1.	Model asentamientos	48	1050
2.	New model asentamientos	10	180
	Total	----- 58	----- 1230
Cost per questionnaire		\$ 35	\$ 25
Total Cost			
		\$ 32,780	

	<u>Type of Questionnaire</u>	
	<u>Group and Income Assets</u>	<u>Individual Income and Assets</u>
Year 4 Follow-Up Survey		
1. Model asentamientos	58	1090
2. New model asentamientos	12	228
Total	70	1318
3. Non-model asentamientos	20	375
4. Cooperative	30	350
5. Individual borrowers	0	500
6. Control group	0	500
Total	120	3043
Cost per questionnaire	\$ 35	\$ 25
	4,200	76,075

Total Cost \$ 80,275

GRAND TOTAL	\$ 262,060
GRANT FUNDED	91,125
LOAN FUNDED	133,735

In the first year the base-line data are collected. All of the initially selected model asentamientos will be surveyed as well as approximately fifty per cent of the membership. Twenty additional asentamientos and half of the membership also will be surveyed. Within the cooperative groups, six sub-units for each organization will be surveyed along with approximately fifty per cent of the membership. A sample of individual borrowers will be drawn from the Development Bank's clients and clients of private banks. The control group sample will be drawn from the priority region to describe the income and wealth position of non-participants in the sector program.

TABLE IV

INSTITUTIONAL EVALUATIONS (\$000)

	1975		1976		1977		1978	
	AID	GOH	AID	GOH	AID	GOH	AID	GOH
Personnel	0	15	0	15	0	15	0	15
Supplies	0	5	0	5	0	5	0	5
Technical Assistance	0	0	0	0	0	0	0	0
Total	0	20	0	20	0	20	0	20
AID	C (Grant Financed)							
GOH	<u>80.0</u>							
Grand Total	80.0							

The GOH contribution (other than supplies) will consist of one technician from each of the major institutions, whose sole responsibility will be to monitor and collect information on the programs of each institution. The final tie-in of all the information will be done at the Office of Sectoral Planning.

The data collection process must be initiated before loan funds can be disbursed. Given this urgency the Mission intends to grant finance this portion along with the first leg of the impact evaluation survey. (\$25,000 for technical assistance and supplies).

3. Social and Organizational Matters

The GOH has undertaken a broad ranging plan for rural development. The institutional structure to carry it out is evolving. But difficult obstacles to the ambitious objectives of the GOH lie in the area of formation and management of rural organizations. At a deeper level, the institutional structure must learn more about the motivations and behavior of its rural clients.

In addition to economic data, information on variables such as the following will be collected:

Organizational Variables

1. Structure
2. Planning - (individual - group as a whole - committees - "leader")
3. Goal setting (participative or not)
4. Organization growth characteristics
5. Methods of management: work and job allocation

Technological Variables

1. Ability to absorb new technology.
2. Methods of introduction - train members or through outsiders.

Patterns of Tenancy

1. Informal (de facto) parcelling vs communal farming and variations thereof.
2. Land ownership vs share ownership

Human Resources Variables

1. Training members - Techniques and strategies
2. Feasibility and effectiveness of seeding new organizations from old.

This information will be generated under the Organizational Development component of the management section described above. During this process careful documentation of the evolution of each asentamiento will be maintained and incorporated within the overall evaluation.

When completed, the evaluation should be able to provide the following information: first, the impact of the sector program on individual income; secondly, the cost-effectiveness of the alternative approaches; and thirdly, a relationship between the evolutionary stages of an asentamiento and resulting income benefits to members.

Since one of the purposes of the model program is to test different approaches, the loan agreement annex will provide that the different organizational and tenure forms which will be evolving informally within the model program be encouraged to develop, consistent with the new legislation.

TABLE V

SECTOR COORDINATION, MANAGEMENT, PLANNING AND EVALUATION

FINANCIAL SUMMARY OF LOAN EXPENDITURES

(\$000)

ACTIVITY	1975		1976		1977		1978		TOTAL	
	AID	GOH	AID	GOH	AID	GOH	AID	GOH	AID	GOH
1. Statistics	117	45	84	47	19	57	0	71	220	220
2. Analysis	44.5	25	77.5	25	45	31	13	39	180	120
3. Project Development and Implementation	125	50	125	50					250	100
4. Management ^{1/}	-	-	-	-	-	-	-	-	-	-
5. Evaluation ^{2/}	20	20	38	20	33	20	80	20	171	80
6. Totals	3065	140	324.5	142	97	103	93	130	821	520
7. AID \$821										
GOH 520										

GRAND TOTAL = \$1,341

1/ Grant financed.

2/ Initial expenditures of impact and institutional evaluations will be grant financed.

4. Agriculture Services

a. Extension Support

Purpose and Rationale

The Department of Agricultural Extension under the Ministry of Agriculture is the primary outreach element of the Ministry to small farmers. The objective of the Extension Service is to transfer to small producers techniques to significantly improve production, productivity, and net incomes.

A rapid expansion of Extension Service personnel will be required to support GOH objectives over the Development Plan Period, 1974-78. For 1974 the Ministry was accorded an increase in its internal budget of approximately \$2.5 million, a portion of which is to cover the costs of additional extension agents. The most pressing need of the Extension Service is for extension agents to work with the agrarian reform program. Over 350 settlements (asentamientos) have been established to date and some 600 more are scheduled for the next four years. The Ministry has committed the Extension Service to give first priority in the assignment of extensionists to the asentamiento program during those four years. To provide for these requirements and other responsibilities as well, a dramatic increase in Extension Service staff will be required. Incremental needs and present staff of extension agents and supervisory personnel are shown in Table 1 below. As may be seen, part of this increase should materialize in 1974.

Requirements include trained technicians in soil conservation, agronomy, animal sciences, horticulture, entomology and plant pathology. This staff of specialists will be built up gradually since advanced training is usually required. It is anticipated that up to 10 positions can be filled by returning participants (now studying abroad) during 1974-75, and the remaining 10 will be filled during 1976-77.

Table 1 shows a need for 156 additional Extension Service positions for the years 1974-78: 125 extension agents, 11 supervisors, and 20 specialists. The final allocation of the extension agents, according to present plans, will be 155 for asentamientos, 32 for cooperatives, and 10 for individual farmers. The sources of extension agents will be new graduates from the National Agricultural School (25 to 40 per year) and, to a lesser degree, graduates of the Pan American Agricultural School (Zamorano) and the National University.

TABLE I

EXTENSION PERSONNEL AND VEHICLES EXISTING AND REQUIRED 1974-78

	Total on board (Cumulative)	Total New	EXTENSION AGENTS			Special- ists	Super- visors	Total Special. and Supervisors (Cumulative)	Vehicles	Total New	Total Vehicles Cumulative	
			Working Asenta- mientos	on Cooper- atives	Other ^{1/}							
1974 ^{2/}	72		60	2	10 ^{4/}	-0-	2	2	74		74	1974 ^{2/}
1974 ^{3/}	102	30	20	10	-0-	4	6	12	-0-	10	74	1974 ^{3/}
1975	127	25	20	5	-0-	6	1	19	20 ^{5/}	7	94	1975
1976	142	15	10	5	-0-	6	1	26	18 ^{5/}	7	112	1976
1977	167	25	20	5	-0-	4	1	31		5	112	1977
1978	197	30	25	5	-0-	-0-	-0-	31	-0-	0	112	
TOTALS	197	125	155	32	10	20	11^{5/}	31	112	29	112	TOTALS

1/ Working with non-affiliated producers.

2/ As of May 1974.

3/ End of C.Y.

4/ 10 e nists will continue to give priority to borrowers from BNF/IDE fund.

5/ Does not include the Director or Assistant Director.

6/ To be purchased with AFD Loan funds. See Vehicle Maintenance re. purchase of additional vehicles.

(See Table II, Agricultural Education Activity). There are enough potential graduates to meet the projected annual increments. Supervisory personnel and specialists will be selected from returning participants (1974-75) who are presently completing degree requirements abroad.

These personnel increases will require significant budgetary increases, not only for salaries but also for logistic support. The projected increases in the Extension Service budget are shown below for the years 1974-78.

PROJECTED BUDGET FOR EXTENSION SERVICE

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Totals	\$ 467,384	662,419	709,180	765,673	818,047

Activity Description

1. Technical Assistance

DESAGRO has about 100 degree-trained professionals, the majority of whom are assigned to research. AID has not provided technical assistance to the Extension Service during the past ten years although technical assistance has been made available through other agencies. The Institute of Interamerican Agricultural Sciences (IIASA) is presently providing part-time services of two technicians and FAO is also providing some technical assistance. The IDB, under its current loan to DESAGRO, is committed to provide approximately one man-year of technical assistance for the Extension Service to assist with in-service and farmer training activities.

The GOB has requested the services of a loan-financed Extension Advisor to assist the Extension Service with (1) program planning, (2) program administration, and (3) establishment of evaluation procedures. Loan funds will finance 15 man-months of this technical assistance at an estimated cost of \$40,000. The Advisor will work closely with the planning and evaluation section of the Ministry which will be assisted with grant AID funds

2. Vehicles

The Extension Service presently has 76 vehicles assigned to 72 extension agents, with two vehicles assigned to the Central Office. Half of these vehicles are more than four years old and will need replacing over the next four years. As shown in Table I, the number of vehicles (those presently in the inventory and the 38 to be purchased under the loan) falls short of meeting the needs of the extensionists if assignments are to be made on a one-to-one basis. Although the Ministry has tentative plans to purchase additional vehicles with supplier credits or GON funds (see Vehicle Maintenance) the exact number to be purchased is subject to change. Motor bikes may be substituted in some cases, and it is possible that groupings of asentamientos will be such that it will not be necessary to assign each agent his own vehicle. Total Cost \$152,000.

3. Demonstration Materials

Under its present loan with IDB, DESAGRO obtained \$142,000 for the purchase of demonstration experimental materials. These funds, however, were nearly disbursed by 1974. At the time of loan negotiations with the IDB (in 1972) the GON's plans for the agrarian reform program had not materialized and no provision was made for demonstration materials for use in the asentamientos.

Loan funds will be used to carry out a series of crop production demonstrations on selected asentamientos involving new crops such as vegetables, hybrid sorghum, and others as deemed technically feasible. They may also involve multiple-cropping schemes and combinations of crop mixes. The demonstrations will be supervised by extension agents and crop production specialists in conjunction with research technicians. Approximately 60 demonstrations per year will be conducted, involving about one hectare each at a cost of \$10,000 per year for the purchase of seeds, fertilizers, pesticides and herbicides. Labor will be supplied by the asentamientos, and the demonstration crop production will go to the asentamientos.

The demonstrations will serve two purposes: (1) they will provide an on-the-spot-proof of the performance of selected crops and/or crop mixes produced on the asentamientos and (2) they will provide supplemental research data regarding yield performance under a variety of conditions.

1975-1978

FINANCIAL SUMMARY (\$ THOUSANDS)

	<u>GOI</u>	<u>AID</u>	<u>TOTAL</u>
Technical Assistance (15 MI)		40	40
Vehicles (38 Jeep- type at \$4,000)		152	152
Demonstration Materials		40	40
Extension Service			
Budget Support <u>1/</u>	1,087		1,087
	<hr/>		
	1,087	192	1,319

1/ Represents cumulative increment for the four years over total budgetary outlays in 1974.

b. Vehicle Maintenance

(i) Background and Purpose

There are 700 miles of paved road and 1,200 miles of unpaved all-weather road in Honduras. Maintenance of these roads is poor. The remaining roads are little more than trails, with their condition largely dependent upon the weather. Ministry of Natural Resources vehicles spend a great deal of time on the poorest roads in the country, with consequent hard use and rapid deterioration.

Maintenance of Ministry vehicles in past years has been carried out by each General Directorate. The result has been poor maintenance, long periods of downtime, and shortened vehicle life. As a centralized COM agency, the Ministry is not permitted except in special cases to contract with private firms for vehicle maintenance and repairs. On the other hand, the DRF and IM, as semi-autonomous agencies, can contract for these services.

The Ministry presently has 305 units in its fleet (Table 1). Most (289) are light vehicles, and their conditions range from new (60) to junk (10). Approximately one-half of the units are over five years old, and their further utility is contingent upon major maintenance and repair. Table 2 reflects the current plan to increase the Ministry fleet by 300 vehicles. Since approximately 133 of the older vehicles will be disposed of in the next four years, the number of vehicles on the road will range between 400-500 for the period 1973-1976, and the maintenance program should be capable of providing services to 400-500 units.

(ii) Project Description

In early 1974 the Ministry was reorganized into five Directorates, with one (DIAAGRO) assuming over half of the Ministry's activities and responsibilities. Future reorganizations will further concentrate operations. Part of the reorganization plan provides for a consolidation of vehicle maintenance.

The Ministry plans to construct two central repair shops, one in Tegucigalpa and one in San Pedro Sula. Both shops will perform general repairs and maintain stocks of spare parts. The shop in Tegucigalpa, however, will be of greater significance since it will serve the entire country as a rebuild and exchange unit shop, i.e., complete exchange of rebuilt engines, transmissions, generators, starters, radiators, differentials, etc. Construction plans and timetables, and a plan for the provision of shop personnel, supplies, and operating costs will be presented to A.I.D. as a condition to Loan disbursement for other than technical assistance costs.

Although many of the Ministry vehicles presently on inventory are listed as being in "poor" condition or as "junk", a number of them are still serviceable with proper maintenance or contain salvageable parts that could be put to good use. Therefore, a more careful examination of all vehicles to determine their future utility will be necessary before the initial order for spare parts is made.

In addition to the general repair shops in Tegucigalpa and San Pedro Sula, six small shops will be constructed for minor repairs, tuneups, and general preventive maintenance. These shops will not stock spare parts inventories except for minor parts such as spark plugs, breaker points, etc. The six shops will be located in Santa Rosa de Copán, Danlí, Juticalpa, Gracias a Dios, Congolón, and La Ceiba, areas that are not readily accessible to either Tegucigalpa or San Pedro Sula. In addition, four mobile shops will be utilized (two out of Tegucigalpa and two out of San Pedro Sula) to service other outlying areas.

(iii) Costs

The GOM has requested A.I.D. Loan financing for a portion of this Project. As shown in Table 3, the combined cost for the project is US \$3,691,752. Of this total, US \$2,740,243 is to be funded by the GOM and the remaining \$951,510 is to be funded under the A.I.D. Loan.

(a) Shop Construction, Equipment, Personnel, and Other Related Costs

As shown in Table 4, the total combined costs for shop construction, equipment, personnel and other related costs is \$1,161,764. Of this total \$401,353 is to be funded by the A.I.D. Loan and \$700,414 by the GOH. All personnel costs will be borne by the GOH. Loan financing will be provided for construction, equipment and tools.

(b) Spare Parts, Accessories and Operational Costs

The number of vehicles to be on the road during 1975-1978 is shown in Table 5. Most of these vehicles will be assigned to outlying areas that, with few exceptions, have poor roads. Maintenance will be important, and maintenance costs will be high. Ministry records indicate the Extension vehicles are driven about 10,000 miles per year. Well over half of this distance is accounted for on unimproved roads. Maintenance under these conditions is estimated to cost about \$400 per year, per vehicle. This does not include tires, fuel, oil, etc. Table 5 shows the estimated value of spare parts, accessories, and operational costs to support vehicle operations. A.I.D. Loan funds will finance spare parts and accessories for U.S. vehicles only at a cost of \$430 thousand.

(c) Technical Assistance

The GOH has requested that \$120,000 of Loan funds be made available to finance four man-years of technical assistance in the organization and operation of an effective maintenance program, the design of systems of preventative maintenance and inventory control, and the development of a driver training course for new employees and for on-board employees who have a history of driving problems. Driving courses will be designed to teach not only the mechanics of safe driving but also safe operating procedure and the detection of mechanical problems. The Resident Advisor is expected to start work in early 1975; TDY Advisors will be scheduled during the first year and at appropriate times thereafter.

TABLE 1

VEHICLE INVENTORY OF MINISTRY OF NATURAL RESOURCES -- MAY 1974

<u>U.S. Origin</u>						<u>Non-U.S. (Foreign) Origin</u>					
<u>Age Range</u>	<u>Condition</u>					<u>Age Range</u>	<u>Condition</u>				
	<u>New</u>	<u>Good</u>	<u>Fair</u>	<u>Poor</u>	<u>Junk</u>		<u>New</u>	<u>Good</u>	<u>Fair</u>	<u>Poor</u>	<u>Junk</u>
1962 and older			3	21	4	1962 and older	-----none-----				
1963 to 1966			12	33	6	1963 to 1966			2	7	
1967 to 1973		42	19	3	0	1967 to 1973		54	25	13	1
1974	<u>46</u> ^{1/}					1974	<u>14</u>				
TOTAL	46	42	34	57	10	TOTAL	14	54	27	20	1
GRAND TOTAL U.S. = 189						GRAND TOTAL Foreign = 116					

GRAND TOTAL ALL VEHICLES = 305

1/ Purchased from IDB loan funds and received in May 1974.

TABLE 2

VEHICLES TO BE PURCHASED/RECEIVED 1974-1978 BY SOURCE OF FUNDS

<u>Year</u>	<u>Number of Vehicles</u>			<u>GOH</u>
	<u>IDB (Loan)</u>	<u>AID (Loan)^{3/}</u>	<u>Ex-Im Bank Loan^{4/}</u>	
1974	93(65 ^{1/} - 28 ^{2/})	0	16	0
1975	40(3 ^{1/} - 37 ^{2/})	20		10
1976	20 ^{2/}	18		12
1977				50
1978	---	---	---	60
TOTAL	153	38	16	132^{5/}
GRAND TOTAL 339				

1/ An approved loan to DESAGRO for extension/research.

2/ An approved loan for animal sanitation (control of bovine tuberculosis and brucellosis).

3/ Anticipated sector loan. See the Agriculture Extension Service activity.

4/ Loan approved in 1973.

5/ It is estimated that 90 units will be of U.S. origin and 42 units of non-U.S. origin.

TABLE 3

PROJECT COST SUMMARY*
(\$ Thousands)

	<u>GOH</u>	<u>A.I.D.</u>	<u>TOTAL</u>
Personnel	700	-	700
Technical Assistance	-	120	50
Construction	-	245	245
Equipment	-	157	157
Spare Parts and Accessories	<u>190</u>	<u>430</u>	<u>690</u>
	890	952	1,842

* GOH will agree to budget sufficient funds for the operational costs of the vehicles.

TABLE 4

SHOP CONSTRUCTION, EQUIPMENT, PERSONNEL AND OTHER RELATED MAINTENANCE COSTS
(In Dollars)

	Total		1975		1976		1977		1978		Total Combined Costs
	GOH	AID	GOH	AID	GOH	AID	GOH	AID	GOH	AID	
CENTRAL SHOPS 1/											
Construction Central Shops and Parts Warehouses (2)		154,800		153,800		1,000					154,800
Shop Personnel	567,769		126,240		128,136		140,949		172,444		567,769
Shop Equipment		66,200		62,200		4,000					66,200
Hand Tools		28,750		20,000		1,000		7,750			28,750
Warehouse Personnel	62,700		13,500		14,900		16,300		17,900		62,700
Office and Warehouse Equipment		8,500		5,700		2,800					8,500
Sub-Total	630,469	258,250	139,640	242,100	143,036	8,800	157,249	7,750	190,344	0	888,719
REGIONAL SHOPS (5) 2/											
Construction		90,000		90,000							90,000
Shop Personnel	69,945		15,120		16,400		18,300		20,125		69,945
Shop Equipment		28,600		20,000		4,600		4,000			28,600
Hand Tools		12,000		8,000		2,000		2,000			12,000
Office Equipment		4,500		3,000		1,500					4,500
Sub-Total	69,945	135,100	15,120	121,000	16,400	8,100	17,300	6,000	20,125	0	205,945
COMMUNICATIONS EQUIPMENT											
Radio Transceivers (2) for Gracias a Dios and Congolón		2,000		2,000							2,000
Radio Transceivers (4) for Shop Trucks		4,000		4,000							4,000
Radio Transceivers (2) for Central Offices		2,000		2,000							2,000
Sub-Total		8,000		8,000							8,000
GRAND TOTAL	700,414	401,350	154,660	371,100	159,436	16,900	175,549	13,750	210,469	0	1,101,764

1/ The two central shops should have 1,000 square meters floor space each. Construction should be of concrete blocks and structural steel with asbestos roofing.

2/ Regional shops should have floor space of 400 square meters each. Construction of concrete blocks and structural steel with asbestos roofing.

TABLE 5

NUMBER OF OPERABLE VEHICLES/YEAR 1975-1978

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
U.S. Origin	278	341	360	360
Non-U.S. Origin	105	91	92	115
TOTAL	383	432	452	495

VALUE SPARE PARTS, ACCESSORY NEEDS, AND OPERATIONAL COSTS 1975-1978
(in dollars)

	<u>1975</u>		<u>1976</u>		<u>1977</u>		<u>1978</u>		<u>Total</u>	
	<u>GOH</u>	<u>US</u>	<u>GOH</u>	<u>US</u>	<u>GOH</u>	<u>US</u>	<u>GOH</u>	<u>US</u>	<u>GOH</u>	<u>US</u>
Spare Parts ^{1/}	47,025	61,426	40,095	78,692	38,610	84,995	48,510	91,298	174,240	316,411
Tires and Tubes ^{2/}		20,992		23,678		24,774		27,131		96,575
Batteries ^{3/}	4,180	3,508	3,564	4,275	3,432	4,555	4,312	4,835	15,438	17,174
SUB-TOTAL	51,205	85,926	43,659	106,645	42,042	114,324	52,822	123,264	189,728	430,160
Fuel and Lubricants	402,150		433,600		474,600		519,750		1,850,100	
GRAND TOTAL	453,355	85,926	497,259	106,645	516,642	114,324	572,572	123,264	2,039,828	430,160
COMBINED TOTAL	2,539,988									

^{1/} U.S. portion covers spare parts for US-made vehicles and GOH portion covers spares for non-US made vehicles.

^{2/} All tires and tubes to be purchased from US funds.

^{3/} US funds will be used for battery replacements for US vehicles only. GOH funds will be used for non-US battery replacements.

c. Improved Seed System (Summary) ^{1/}

Purpose and Rationale

A basic requirement for successful results from the model asentamiento and cooperative credit activities is the availability of improved seed for basic grains production. Only an estimated four per cent of small farmers used improved seed in 1973. Without improved seed, credit cannot be effectively used for adoption of an intermediate level technology. The purpose of this activity is to assure an adequate supply of improved seed for the expanded small farmer programs.

The GOB has an installed capacity with a potential for processing about 1800 H.T. of improved and certified grain seed. In 1973, only about 20% of this potential was achieved because of the following major deficiencies:

- a) Insufficient funds to contract with selected farmers for seed production and administrative bottlenecks in making payments.
- b) Shortage of funds to make essential plant repairs and acquire equipment and supplies.
- c) Inadequate staffing and travel budget at supervisory and management levels.

Activity Description

In order to supply improved seed requirements for the expanded asentamiento and cooperative small farmer credit and technical assistance programs, this activity will assist in alleviating the deficiencies described above. It will permit a gradual but significant increase in the utilization of existing seed processing capacity. Under the program, by 1978 existing capacity will be utilized at nearly 100% of its potential.

This activity will provide the following:

- a) To assure programmed production of seed, establishment of a revolving fund administered by the ENF for the account of DESAGRO for financing contract seed production on

1/ See Annex I, D for a detailed project description.

adequate terms with private farmers.

- b) Essential repairs and replacement of worn out equipment, as well as acquisition of needed expendable supplies.
- c) Increased operating funds from the GOH budget for supervisory personnel and travel to assure adequate supervision of seed multiplication and production. (Required training will be carried out under the Agriculture Education activity).

The specific objectives of the activity are:

- a) Phased increases of seed production processing from 1975 through 1978 to achieve 100% of existing plant capacity potential (1800 MT).
- b) Utilization of seed supply for asentamiento and cooperative credit programs to assure utilization of increased seed supplies.

A seed production planning committee will be established with representatives from INA, the BNF and DESAGRO. In the case of DESAGRO, the committee will include representatives from the following Departments:

- Agricultural Services and Supplies
- Agricultural Research
- Project Promotion and Execution

This committee will establish annual seed production schedules well in advance of first crop planting and will revise the schedules prior to second crop planting. Projected improved seed production to be processed in the DESAGRO facilities is as follows (in thousands of metric tons):

PROJECTED SEED PRODUCTION TO BE
PROCESSED BY DESAGRO (000 M.T.)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Corn	363	476	589	704
Beans	171	252	333	414
Rice	252	354	456	557
Grain Sorghum	18	26	33	41
Others <u>1/</u>	25	50	75	100
Totals	829	1,156	1,486	1,816

1/ Sesame, wheat, soybeans

The BRF will announce prices for improved/certified seeds in connection with the prices set for commercial grains in the context of its grain price stabilization program. The premium for improved/certified seed will be sufficient to motivate farmers to produce seed under contract. The ability of the BRF to pay promptly on delivery and to finance production is expected to remove one of the major constraints identified during the intensive review.

The revolving fund will be used only for payments to farmers/producers under contract with DESAGRO for improved (and certified) seeds and for such expendable supplies as sacks and tags. Expendable supplies for the seed processing plants will be charged to the revolving fund only after cash receipts from the first year's sales are deposited to the revolving fund.

Financial Analysis

Cost estimates for equipment and materials total \$100,000, which will be financed by A.I.D. Capital required for the revolving fund is estimated at approximately \$355,000, of which \$300,000 will be provided from loan funds. The fund will be established with at least \$55,000 provided by the GOB. The GOB will agree to maintain the fund at least at the level of resource inputs into the fund. Necessary operating budget increases will be provided entirely by

the GOH. Total incremental budgetary outlays (exclusive of seed production contract funds) will be \$249 Thousand for the period 1975-1978. This includes a budget of \$25,000 per year for costs related to implementation of a new seed law beginning in 1976. Technical assistance will be provided as needed under the Mississippi State University - AID/TAB regional contract.

FINANCIAL SUMMARY (\$000, 1975-1978)

	<u>AID</u>	<u>GOH</u>	<u>TOTAL</u>
Seed Fund	300	55	355
Equipment & Parts	100	-	100
Operating Budget	-	174 <u>1/</u>	174 <u>1/</u>
Requirements to enforce seed law	-	75 <u>2/</u>	75 <u>2/</u>
	<hr/> 400	<hr/> 304	<hr/> 704

1/ Represents cumulative increment for the four years over total budgetary outlays in 1974.

2/ Beginning in 1976.

5. Agriculture Education

Purpose and Rationale

The purpose of this activity is (a) to upgrade the technical capabilities of present and future personnel of the Agriculture Sector Institutions, particularly the Ministry of Agriculture, National Development Bank, National Agrarian Institute and the Superior Council for Economic Planning; and (b) to upgrade the technical skills of extension personnel and campesino leaders, in the short run, to improve the delivery of services to small farmers (the latter will be grant-funded). The academic training activity is expected to have two additional benefits. First, it may be a sufficient inducement for good students to pursue a career in agriculture. Secondly, it can open the door to additional academic training for lower-income people.

One of the principal constraints to the development of the agriculture sector in Honduras is the lack of trained manpower. This problem is being addressed in part by development of in-country agriculture education institutions (primarily at the secondary level) through a World Bank Loan, which is directed toward improvement of the Escuela Nacional de Agricultura (ENA) and the establishment of several Campesino Training Centers. Improvement of the ENA includes renovation of existing facilities, construction of new facilities, and technical assistance. Also, a proposed IDB loan to renovate and up-grade the J. F. Kennedy Agricultural School will increase the number of sub-professionals in the country.

There remains a continuing requirement for specialized training abroad and expansion of the number of agricultural technicians in the public sector trained in in-country academic institutions. In a recent study of agriculture education requirements, estimates of shortages of manpower with academic training in specialized fields were developed for the Ministry of Agriculture, primarily for the areas of research and extension. These estimates, presented in Table I, are based on an optimal staffing for the period 1974-78. Similar manpower studies for the National Agrarian Institute and the National Development Bank are not available. However, the latter insti-

tutions will require additional field personnel with academic training in agriculture to support the planned expansion of the sector program.

TABLE I

MINISTRY OF AGRICULTURE-SHORTAGES OF SPECIALIZED MAN-POWER
1974-78

<u>AREA OF SPECIALTY 1/</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>Total</u>
Agric. Education	2	1	2		3	8
Agric. Extension	6	4	10			20
Agric. Economics	2	1	1	1		6
Agric. Engineers	2	2	2		2	8
Home Education	3	1	1	1	4	10
Animal Husbandry		2	3	3		8
Administration, Public	1	3	2	2		8
Agri-Business		2		2		4
Other Specialized Fields 2/	22	14	17	12	23	88
Total	38	30	39	21	32	160

An expansion of in-service training is required for the Ministry of Agriculture employees (both veteran and newly hired) who lack certain skills. Given the new emphasis on working with groups of campesinos, it is important that extension agents and other Ministry personnel, as well as key personnel from other sector institutions, be trained in techniques appropriate to that task. In order to provide continual interchange between public sector personnel and the target group, there is also the need to train leaders of small farmer groups in similar techniques.

- 1/ The study also showed a need for 20 veterinarians. However, this specialized training has been provided for under an IDB loan to control tuberculosis and brucellosis in cattle.
- 2/ Horticulture, soils science, seed technology, entomology, plant pathology, etc.

Project Description

Academic Training

The academic training program included in the Sector Loan takes into consideration two conflicting needs: (1) the requirement for training now of more specialized technicians stemming from the content and targets of the sector program and future needs, and (2) the need to pursue the action program forthwith with all available trained manpower. The Government's agrarian reform program cannot be postponed; yet training for required skills must begin now for future action programs. Thus certain skills will not be available in the numbers required in the short-run. While this cannot be avoided, the Mission and the GOH have programmed loan funds for academic training which, while providing substantial training, fall short of the requirements shown in Table I to insure that training will not undermine the execution of the sector program.

Technicians for the training program and the execution of the sector program will come from essentially four sources: (1) Panamerican Agricultural School at Zamorano (EAP); (2) the National School of Agriculture at Catacamas (ENA); (3) the Agricultural Sciences Program of the National University (UNAH); and (4) selected high-school graduates interested in pursuing a career in agriculture.

As shown in Table II, the training proposed to meet the program requirements can be implemented without seriously affecting the sector program. The absence of participants can be covered in the short-run by the expected supply of technicians from in-country institutions and those returning from abroad (Line A).

The activity will provide for one hundred nine participants (100 to be financed under the Sector Loan) to enter training abroad for studies in specialized fields in various institutions located primarily in Mexico, other Latin American countries and the United States (Line B.1). Of this number, approximately 50 will be drawn from the personnel of the sector agencies and the remainder will be recent graduates of UNAH and EAP who will thus be drawn into public sector employment.

During the four year period (1975-79), a total of 83 participants will begin in-country training, 53 in UNAH and 30 in the EAP. The UNAH participants will enter a five-year program leading to a degree title of "Ingeniero Agrónomo" and the EAP participants will train in a three-year program graduating as "Agrónomos". The in-country training program will be carried out beyond the sector program period. The GOH will provide partial financing in 1978 and continue financing the costs incurred after the Loan disbursement period (this may be seen in Table FII).

TABLE II

SECTOR ACADEMIC TRAINING PROGRAM

<u>A. Potential Supply of Technicians</u>		<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>TOTAL</u>
A.1	1. UNAH	25	25	25	25	25	125
In-country Graduates	2. EAP ^{1/}	15	15	15	20	25	90
	3. ENA	40	35	25	40	60	200
	4. TOTAL	80	75	65	85	110	415
A.2	Participants Returning from Abroad	14 ^{2/}	7 ^{2/}	9 ^{2/}	22	34	86
Sub-Total A		94	82	74	107	143	401
<u>B. Participants for Training Program</u>							
B.1	Training Abroad GOH Employees	9 ^{2/}	10	16	16	8	59
	UNAH or EAP Graduates	0	12	18	18	2	50
B.2	In-country Training EAP and UNAH	0	18	20	25	20	83
Sub-Total B (B.1 + B.2)		9	40	54	59	30	192
C. Sub-Total (A minus B)		85	42	20	48	113	309
C.1	<u>Technicians for Sector Program by edu- cational level to replace GOH employees in training and for program expansion.</u>						
	1. Specialists trained abroad	14	7	9	22	34	86
	2. In-country trained Ag tech- nicians (EAP and UNAH)	40	28	22	27	64	181
	3. Mid-level technicians (ENA)	40	22	5	15	40	130

^{1/} In the period 1974-1976 approximately 15 EAP students will be financed under the CORE Services Grant Program.

^{2/} Grant-financed under CORE Services Grant Program.

Selection of participants to train abroad will be made from (a) graduates of the EAP, (b) graduates of the Agricultural Sciences Program of UNAH and (c) on-board employees of Agricultural Sector Institutions, specifically employees who have the equivalent of two years of academic training and have been employed in the sponsoring institutions. Participants to receive in-country academic training at the UNAH will be selected from graduates of the ENA while participants for the EAP will be chosen among the graduates of the ENA and/or from selected high school graduates who are interested in an agriculture profession.

Participants will be selected for their next level of formal training (Agrónomo to Ingeniero Agrónomo or Bachelor's degree in a specialized field; Ingeniero Agrónomo and holders of Bachelor's degree to Master's degrees; and Master to Doctorate). In general, age limits of 20 to 30 years for Bachelor and Masters degree candidates and 25-35 years of Masters and PhD will apply. Based on the above criteria, selection of participants will be made by the Agriculture Sector Coordination Committee (COCO). The COCO will appoint an inter-institutional agricultural education committee which will establish the procedures and regulations governing the selection of candidates and make recommendations for final approval by the COCO.

Administration of the academic training activity will be carried out by EDUCREDITO, a private non-profit institution founded with the assistance of an AID loan to administer educational credit. Once the participants are selected, EDUCREDITO will be in charge of such administrative procedures as administering sub-loans, making arrangements with the educational institutions involved (in-country and abroad), arranging transport, maintaining records of grades, providing life and health insurance, and follow-up after the student returns. Prior to disbursement by AID of any funds for this purpose, an agreement will be executed between the GOH and EDUCREDITO which will define its administrative responsibilities and establish the administrative costs to be charged by EDUCREDITO. Loan funds will finance direct training costs (i.e., tuition, books, fees, maintenance of the student, and international transportation) and initially, administrative costs which

subsequently will be repaid by the participant.

Interest-free subloans will provide sufficient funds to finance direct training costs and to cover administrative costs. The subloan will require signature of the student and two co-signers. If the student fails to complete training successfully, the subloan in its entirety will become due immediately at commercial rates of interest. Participants will be required to return to their sponsoring institutions to work in agricultural development. If the participant successfully completes training and works for his sponsoring institution for twice the period of training, the entire amount of direct training costs will be forgiven (in effect, paid by the GOH) and the student will only have to repay the administrative costs of his subloan. The repayment period for this portion of the subloan will begin after the student has returned and is working for his sponsoring institution.

Repayments by participants of administrative costs and of direct training costs (in cases where the participant fails to complete successfully his training or to work for the expected amount of time) will be used to set up a special fund to extend academic training beyond that contemplated under the loan.

Non-Academic (in-service) Training (Grant Funded)

The proposed rapid expansion of DESAGRO and the need for in-service training of other personnel working in the rural development program dictates that in-service training should be expanded. The IRRD has provided financing for three training centers (Catacamas-Glancho, La Lujosa-Cholulteca, La Esperanza-Intibucá) and another three centers will be established with United Nations (FAO) assistance. Construction of the first of the latter three center has been started at Guanchías-Yoro.

The in-service training portion of the program will be administered by the Ministry of Agriculture and will be somewhat diversified, since its final objective is to raise the quality and efficiency of various services to the agriculture sector. The Centers will offer a series of courses for new extension agents, current employees, and other personnel involved in rural development programs,

including technical and supervisory personnel for the asentamientos, campesino leaders of small farmer groups, agricultural credit agents, promoters of the agrarian reform program, and cooperative assistance personnel. The majority (except for campesino leaders) are secondary agricultural school graduates and will need additional training.

The in-country, non-academic training component of this activity is vital to the success of the sector development program because directly, and in the short term, it affects the people who provide service and guidance to groups of small farmers and to the leaders of the small farmer organizations. Other ICI's have provided financing for the facilities of the training centers; the GOH budget covers operational costs of the Centers; and PROFINDE (Programa Financiero de Entrenamiento), with financial assistance from OAS, finances the direct costs of the training. The missing element is technical assistance in designing and presenting courses in a wide variety of topics and disciplines to a heterogeneous assembly of participants. Special teaching techniques are needed and new teaching aids could help teachers to be more effective and reach more participants. In consideration of the critical nature of this requirement, the Mission plans to amend the Core Services PROP to provide for grant funding of a contract, possibly with CALPOLY because of this institution's experience in this field in Central America, to provide TDY technical assistance and some innovational teaching aids to the Training Centers. This grant assistance will be closely coordinated with the Organization Development Activity described elsewhere in this paper. Tentative Mission Plans are to finance during 1975, 1976, and 1977 four technicians for forty days in Honduras each year at a cost estimated at \$30,000 per year.

Financial Requirements

Costs of the academic training activity are presented in three components which are shown in Tables III and IV. Loan funds will be used to finance direct training costs and administrative costs. Family maintenance costs for on-board personnel entering training abroad will be paid by the GOH sponsoring institution and sponsoring institutions will provide funds through their respective budgets beginning in 1978 to continue the scholarship program for their participants. Administrative costs will be repaid by the participant.

TABLE III - FINANCIAL REQUIREMENTS FOR ACADEMIC TRAINING PROGRAM 1975-82

	1975		1975		1977		1978		1979	1980	1981	1982	TOTAL	
	LOAN	GOH	LOAN	GOH	LOAN	GOH	LOAN	GOH	GOH	GOH	GOH	GOH	LOAN	GOH
1. Training Abroad														
a. Direct Trng. Costs ^{1/}	110.0		260.0		340.0		220.0						950.0	
b. Family Maintenance Costs ^{2/}		20.0		52.0		64.0		48.0						184
c. Administrative Costs ^{3/}	16.5		42.0		51.0		33.0						142.5	
Sub-Total	126.5	20.0	322.0	52.0	391.0	64.0	253.0	48.0					1092.5	184
2. In-Country														
a. Direct Trng. Costs														
UNAH	27.0	0	42.0	0	64.5	0	29.5	50.0	79.5	52.5	37.5	15.0	163.0	234.5
EAP	0	0	35.0	0	70.0	0	55.0	50.0	70.0	35.0	-	-	160.0	155.0
b. Administrative Costs	4.0	0	11.6	0	20.2	0	12.7	15.0	22.4	12.8	5.6	2.3	48.5	58.1
Sub-Total	31.0	0	88.6	0	154.7	0	97.2	115.0	171.9	100.3	43.1	17.3	371.5	447.6
T O T A L	157.5	20.0	410.6	52.0	545.7	64.0	350.2	163.0	171.9	100.3	43.1	17.3	1464.0	631.6

1/ Includes tuition, books, fees, room and board, etc and international transport.

2/ Family maintenance for 50 in-service personnel to enter training abroad.

3/ Administration costs charged by EDUCREDITO equal to 15% (exact amount to be negotiated) of total loan funds administered for direct training costs and to be repaid by the student.

* Includes \$299 thousand during the period of loan disbursement and a commitment to provide \$332.6 thousand during the period 1979-1982 to finance the completion of in-country academic training initiated during the loan disbursement period.

X

6. Asentamiento Access Roads

Purpose and Rationale

This activity is designed to provide improved access for asentamientos in the AID/GOH model program through labor intensive, employment-generating methods. Most of the asentamientos being established do not have reliable direct access to inputs and markets. For the most part their access consists of dirt trails which are impassable when it rains. However the distance from an asentamiento to an all weather road is generally less than 20 kilometers, and in the clusters where the AID/GOH model asentamiento program will take place the average distance is only some 5 kilometers.

A critical requirement for success of the broader GOH asentamiento program will be the spatial organization of asentamientos to facilitate technical assistance, farm inputs, marketing, and GOH management of the program generally. Accordingly the spatial and other criteria used to select the model asentamientos will determine those which will receive road improvement or construction under the program.

Activity Description

The initial, tentatively selected 40 model asentamientos and the 30 candidates for inclusion in the program as it expands all require improved access or do not now have access to all weather roads. The average distance from these asentamientos to an all-weather road is some 5 kilometers. Thus approximately 350 kilometers of access roads will provide access for the 70 model asentamientos. The roads will be constructed using labor intensive techniques. As noted, roads will be selected based on criteria used in selection of model asentamientos. Construction will be scheduled in two phases. Phase I of the work will begin using two construction alternatives and on the basis of an evaluation, Phase II will continue with one or the other or both alternatives. The maintenance work will be the responsibility of the asentamiento with the cooperation of the Department of Highways. This activity will be closely coordinated with a feeder road activity being pursued under a World Bank loan.

Labor Intensive Techniques

Increasing attention has been paid in recent years to finding ways to utilize to the maximum extent possible, the abundant surplus of labor available in developing countries. Studies and pilot projects have found that the substitution of labor for equipment is technically feasible for road construction activities. Techniques which are presently in use in civil construction around the world, however, are either highly labor intensive or highly equipment intensive and only limited information is available on intermediate or "mixed" techniques.

A 1971 study by the ERD, "Study of the Substitution of Labor and Equipment in Civil Construction", in India, Indonesia and Nepal attempted to establish the technical and economic feasibility of alternative civil construction technologies utilizing different combinations of labor and equipment. The road projects selected were main roads; but they did cover a wide range of environmental conditions, some of which are similar to Honduras. Substituting progressively more labor, starting with those tasks where labor is relatively least efficient was found to lead to increased costs per additional job as well as increased total costs. The cost estimate for local roads (no geometric standards given) built on flat terrain and using labor intensive techniques was \$1,100/km. and labor costs (50 per cent of total costs) were based on unskilled labor rates of \$0.50/day.

A 1972 report by M. Vogel (AID/C) on Labor Intensive Access Road Construction in Colombia gives an account of the "Pico y Pico" experiment by the Ministry of Public Works using hand labor almost exclusively in the construction of 3 to 5 kilometer access roads. All labor was recruited from farms and villages along the road. In this instance each individual laborer was contracted separately to do a specific task at a fixed unit price. Wherever possible, the roads were located in cuts to avoid fill, but when fill was unavoidable, equipment was brought in for compaction. The cost of these access roads built in mountainous terrain (no geometric standards given) and using labor intensive techniques, was about \$6000/km.

A February 1974 report by F. Figueroa (USAID/U) on Labor Intensive Road Construction in Honduras gives an account of a Ministry of Communications, Public Works and

Transport force account construction project of an access road in southern Honduras using labor intensive methods. The project consisted of upgrading 50 kms of an existing dry weather road to all-weather road standards. In addition to locating the road in cuts, submergible crossings were used for streams and small rivers. Progress on this road has been about 3 kms/Mo. This program of upgrading existing roads using Penetration Road Geometric Standards (See Annex I, Exhibit E-1) in mountainous terrain and using labor intensive techniques, with some Highway Department equipment was performed at a cost of about \$3000/km.

Road Selection and Construction Schedule

The selected model program asentamientos are located within 4 specifically defined priority development regions (See Annex I, Exhibit E-2). (As mentioned in the model asentamiento Summary Paper, an additional cluster of asentamientos in the Comayagua Valley will be considered for inclusion in the Program). Each region has approximately 18 asentamientos, which at an average length of access road of 5 kms. implies approximately 90 kms. per region. Only asentamientos meeting (or having potential to meet) the criteria of selection for the model program will be included. Selection of roads will be made by the Department of Highways and the Honduran Agriculture Sector Coordinating Committee (COCO) with the concurrence of A.I.D. Two of the regions will be selected for Phase I construction which will be built under Constructor Alternatives I and II.

It is assumed that out of the 350 kms. of access roads which will be built under this project, 175 kms. will be new and 175 kms. will be upgraded, and that the monthly advance on a new road is one km. and on an upgraded road 2 km. Therefore an average 5 kilometer road would take five months if it is new construction and 2 1/2 months if it is upgraded. Adding one month for mobilization and one month for contingencies, the totals are 7 months and 4 1/2 months, respectively. If one road is started each month, a maximum of seven roads would be underway at any one time and a maximum of 18 months would be needed to complete the package in each region. Phase I therefore could be completed in 1 1/2 years and Phase II, which could start anywhere from 3 to 6 months after Phase I, could be completed two years after the start of the activity. If we assume that construction will be scheduled only for the 6 month dry season, from the middle of November to the middle of May, when traditionally

there is a surplus of labor, construction of the two phases will take about 3 1/2 years. The latter schedule will be pursued to maximize employment opportunities for rural laborers.

Construction Alternatives

Two alternatives in construction procedures will be used and evaluated.

Alternative I: (a) The GOH Department of Highways will design the access roads; (b) with a fixed price construction contract (following standard A.I.D. procedures), private contractor(s) will construct the roads, buying all materials, furnishing equipment, and hiring labor; (c) a private consultant, on a fixed price contract, will approve the plans and specifications, supervise the construction and certify payments; (d) INZ and CAPR/Honduras, under contract, will promote community awareness of the construction of the roads and the benefits to be gained; organize a Patronato (involving the asentamiento) and establish a community organization for minor and emergency maintenance of its access road, carry out work within a specified time schedule and complete control of project funds.

Alternative II: (a) The GOH Department of Highways will design and construct the roads, furnish all necessary equipment and operators, and coordinate the project; (b) a contractor (possibly CAPR/Honduras) under a contract with the Highway Department, will initiate community organization, educate the citizens in the values of the road program, will purchase all materials, contract local laborers, and establish a community Patronato for construction and maintenance; (c) a private consultant will approve plans and specifications, supervise construction and certify all payments. Alternative II provides greater community involvement, and the acquisition of labor and material purchases are controlled by a second party.

The use of two alternative construction schemes will be an experiment in labor intensive methods using the private construction industry and GOH Highway Department force account methods with independent cash control. Experience has demonstrated that fixed-price, capital-intensive construction contracts result in the lowest cost per kilometer in the construction of highways. However the GOH Highway Department, using existing staff, equipment, and operators,

may show lower direct costs per kilometer since the administrative costs and depreciation of equipment is already budgeted, and such costs are shared with other highway projects.

Initially, two regions will be selected as experimental clusters. For one cluster the series of roads will be built by private contractor(s), and for the second by force account. After an evaluation of these two alternatives, the remaining series of access roads in the other 2 regions will be built by the construction method proved most successful in terms of costs and social benefits. It is possible that both methods will be continued.

Estimated Costs of Access Roads

Although information on construction costs of building access roads with labor intensive techniques is limited, in estimating construction costs of these access roads we have assumed that for any new road, the contractor would use an unskilled labor force of 165 men earning \$1.00/day, working 24 days a month at a cost of \$3,900/Mo. Assuming that unskilled labor is approximately 60% of the total construction cost, the cost of materials, skilled labor, equipment etc. would be \$2,440/Mo. for a total of \$6,400/Mo. Therefore if a contractor advances one km. per month on new construction the cost per kilometer is \$6,400. Based on the experience discussed above (Labor Intensive Construction) and especially the Honduran experience, this estimate is realistic.

On roads which need only upgrading where construction advances at the rate of two kilometers per month, unskilled labor costs are estimated at \$1,980 per kilometer, materials at \$1,525 per kilometer and skilled labor, equipment, etc. at \$895 per kilometer for a total cost per kilometer of \$4,400.

Assuming that one half of all construction in both first and second phases will be new construction, and one half will be upgrading of existing roads, we have the following:

CONSTRUCTION COSTS

PHASE I - 175 Kms.

87 1/2 kms. at \$6,400/km. \$558,000
 87 1/2 kms. at \$4,400/km \$381,000

Sub-Total \$939,000

PHASE II - 175 kms.

939,000

Sub-Total \$1,878,000

RIGHT OF WAY

350 kms. at \$1,150/km. 400,000

DESIGN & SURVEYS

130,000

CONSULTING ENGINEER

120,000

TOTAL \$2,528,000

The GOB input will be right of way requisition (see Annex I, Exhibit E-3) field surveys and design, and under Alternative II they will furnish equipment operators, and construction superintendents.

ASENTAMIENTO ACCESS ROAD COST BREAKDOWN

<u>PHASE I</u>	(Approx Per cent)	GOB	AID		<u>TOTAL</u>
		<u>LC</u>	<u>LC</u>	<u>LC</u>	
Unskilled Labor	(60%)	-	570	-	570
Materials					
Local	(22%)	-	209	-	209
Foreign	(3%)	-	-	28	28
Skilled Labor	(5%)	22	22	-	44
Equipment	(10%)	44	44	-	88
Construction Total		66	845	28	939
Right of Way		200	-	-	200
Design & Surveys		65	-	-	65
Consulting Eng.		-	60	-	60
		331	905	28	1,264
<u>PHASE II</u>		331	905	28	1,264
		662	1,810	56	2,528

The cost breakdown is summarized below.

ASENTAMIENTO ACCESS ROADS COST SUMMARY

(In U.S. Dollars)

PHASE	GCH		A.I.D.		TOTAL
	L.C.	L.C.	\$ Costs		
I	\$331,000	\$ 905,000	\$28,000		\$1,264,000
II	331,000	905,000	28,000		1,264,000
	<u>\$662,000</u>	<u>\$1,810,000</u>	<u>\$56,000</u>		<u>\$2,528,000</u>
			A.I.D. Loan		\$1,866,000
			G.O.H.		662,000
					<u>\$2,528,000</u>

Institutional Feasibility

(i) Highway Department Capability

The GCH Highway Department is under the direction and supervision of the Ministry of Communications, Public Works and Transport, who appoints most of the key personnel and determines the nature of the work to be carried out under its annual program.

In 1972 the Ministry of Communications was reorganized into two independent offices: the Directorate General of Highways (Dirección General de Caminos) and the Directorate General for Maintenance (Dirección General de Mantenimiento). Most of the construction work by the Highway Department is executed by contract. Approximately 5% of the annual budget for construction is used for force account, including some road improvement. Some of the projects built by the Highway Department have been supervised by a private consultant, i.e., the San Francisco de la Paz-Gualaco project. The Highway Department has also constructed roads by force account on an equipment-rental base. Under this plan the resident engineer supervises the use of the rented equipment and the contractor is responsible solely for equipment maintenance.

Following the 1972 reorganization, the Directorate General for Maintenance created 7 separate districts and 7 substations throughout the country for maintenance operations. Major repairs on Highway Department-owned heavy equipment are carried out at the Las Torres workshop in Comayagua and in the San Pedro Sula workshop. The principal maintenance stations are linked by radio communication. The maintenance posts are well distributed with respect to the existing highway network.

Early in 1974 IDB/EXIMBANK approved loans to the GOH in the amount of \$3.6 million for the acquisition of maintenance equipment and spare parts. The Department is of the opinion that the maintenance stations would be capable of maintaining additional access roads, providing the roads are built to Highway Department minimum standards and provided that the asentamientos assume some of the maintenance responsibilities.

In order to meet the demands of the access road program, the Highway and Maintenance Departments will have to increase their staffs because of increased demands in engineering design and field supervision. In addition, the Highway Department will have a sizeable project in right-of-way acquisitions for both the new roads and widening of existing roads. Accordingly, their plans for providing personnel and other resources for the program will have to be established prior to first disbursement of loan funds for the activity.

(ii) Private Construction Industry Capability

The investment in Honduran highway construction is now averaging about \$15 million a year. Of this amount about 80% of the highway construction is being performed by foreign contractors while 20% is being performed by local contractors. Discussions were held with the Association of Highway Contractors concerning the possible interest of Honduran contractors in highway construction using labor intensive methods. They expressed a definite interest, and named at least nine contractors who they judged would be willing to take part in this experiment as long as all the rules governing this type of construction were spelled out.

(iii) CARE/Honduras:

CARE is a non-profit, non-sectarian agency, which in Honduras since 1955 has administered more than \$12 million in goods and services, primarily in the areas of elementary

school construction, rural potable water systems, nutrition feeding programs and public health. In cooperation with the appropriate ministries for its programs, CARE/Honduras has provided the community contracts, community organization, solicited all bids for materials, purchased the materials, coordinated the projects, certified certain payments for labor, and supervised the non-technical aspects of each project. The projected 5-year budget (1975-1979) for continuation and expansion of these programs is \$10 millions. CARE/H has a current staff of 21 Hondurans and 5 North Americans, maintaining offices in Tegucigalpa, San Pedro Sula, and Choluteca. Of the Honduran staff, 10 are community project supervisors, each with a vehicle for rural area travel.

Environmental Considerations

It is expected that the construction of the access roads will not have any significant environmental impact. However, since all development activities have some environmental impact, it is obvious that it should be analyzed; and for those roads, the construction of which will clearly have potential deleterious environmental side effects, alternative routes should be studied and appropriate safeguards proposed.

Since the planning and execution of the construction of the access roads is properly the responsibility of the Highway Department, A.I.D. involvement will be limited to insuring that project analysis and design reflect consideration of environmental factors and alternative means of minimizing undesirable side effects while maximizing beneficial results.

Economic Feasibility

Introduction

The access roads contemplated under this loan are an integral part of the model asentamiento program. New and improved access roads are necessary not only to transport asentamiento produce to markets at a reasonable cost, but are also necessary to transport credit-financed production inputs from regional centers to the asentamientos and to enable the technical assistance agents to cover the six to seven asentamientos assigned to them. In sum, the access road activity is important if not critical to the success of the asentamiento activity and accordingly, the analysis will focus on the feasibility of the total asentamiento package, an approach also justified by the fact that the access roads will benefit the asentamientos almost exclusively.

Procedures and Assumptions Employed

In order to estimate the returns to land, labor and capital, use was made of the coefficients developed in the profitability and the agrarian fund sections of this paper. Estimates of the value of production and cost of inputs per manzana were developed for corn, beans, rice, and sesame. For all crops except beans the employment of the intermediate level of technology was assumed. Beans were assumed to be produced with traditional technology levels which appear to be more efficient. Subtracting the costs of inputs per manzana from the value of production per manzana results in an estimate of the returns to land, labor and capital per manzana for each crop. These estimates were then multiplied by the anticipated area under cultivation to arrive at total figures for each crop. These totals were then summed to determine estimates for a composite cropping pattern. Because 505 manzanas are contemplated for financing for which cropping patterns have not yet been determined, it was assumed that the returns on the 505 manzanas would be at least equal to those of the composite basic grains package, and thus an estimate was made for value of production, costs of inputs and returns to land, labor and capital for the cultivated area in the first year of the program, 11,038 manzanas (the foregoing is presented in Table AR-1).

Table AR-2 presents 1975 estimates for the return to capital and the rate of return on short-term credit, assuming the existence of access roads. These estimates were developed by subtracting from the estimated returns to land, labor, and capital the estimated opportunity costs of labor and land rent. The opportunity cost of labor was fixed at L.2.00 per day for 180 days a year for 1576 families (or L. 360 per year per family which is a generous estimate of their average income potential

outside of the asentamientos). Implicit here is an important assumption-- that the opportunity cost of their labor in excess of 180 days a year is zero or nearly zero. This assumption is backed by results of the agricultural sector analysis and other available evidence and is therefore employed in this analysis, although in the opinion of the analyst, its validity remains to be established. The opportunity cost of land rent was estimated at L. 16 per manzana per year; this figure is lower than the national average of L. 28 per manzana per year because the lands in question lack access and were previously underutilized. Given the return to capital, it was possible to estimate the rate of return on short-term credit, 30.7 percent per annum.

Estimates for the net return on credit, 1975-1978, assuming the existence of access roads are developed in Table AR-3. The important assumptions made in Table AR-3 are the following:

1. That from 1975 to 1978 the cultivated area and number of families in the model asentamientos will increase at a rate of 20% per annum.
2. That the rate of return on outstanding short-term credit will be 30.7% from 1975 to 1978 (this is the estimated rate of return developed in Table AR-2 for 1975).
3. That the discontinued present value of future income associated with present medium term investment is at least equal to the estimated return in basic grains. (To facilitate the analysis the present value of this future income is attributed to the years in which the investments are made).
4. That required technical assistance will consist of salary costs and support costs of L. 10,000 per man-year and that it will total 96 man-years from 1975 to 1978, distributed by years as programmed in the agrarian fund section of this paper. Although these TA costs are not to be borne by the asentamientos initially, they are charged to the program in this analysis.

Table AR-4 presents estimates of the average rate of return on total investment in the model asentamientos for 1975 through 1978, as well as the average annual rate for the 1975-1978 period. Because the annual rates depend in large part on the assumed disbursement schedule for access roads which will be defined exactly at the end of Phase I of road construction, the average annual rate of 15.4% is a more meaningful figure. A rate of return of 15.4% leads to the conclusion that the investments programmed for the model asentamiento program, including the access roads, are economically viable. However, given the broader goals and purposes of this program, e.g., increasing small farmer incomes and reducing rural unemployment and underemployment, an attempt was made to quantify these benefits of the model asentamientos program. These quantifications are summarized in Table AR-5 and indicate that over the 1974-1978 period family income in the asentamientos is estimated to increase a total of L. 7.4 million or about L. 872 per family (L. 1172 versus the present estimate of L. 300). This increase does not include any increases in income which might result from the road program. The additional employment generated because of the asentamientos and the road program is estimated at nearly 2.4 million man-days.

In conclusion, barring unforeseen catastrophies and assuming the existence of adequate management and direction, the asentamiento component of the program (including the construction of access roads) is economically feasible, will result in substantial increases in the incomes of poor campesino families, and will have a significant impact on rural sector employment.

ANNEX I, Exhibit E

1. Geometric Standards
2. Map of Model Asentamiento Regions
3. Right-of-way law excerpt
4. Cross-Section of Typical Asentamiento Roads
5. Asentamiento Regions and Relationship to Proposed Roads and those under construction financed by IBRD and IDB.

Table AR-1

ESTIMATED RETURN TO LAND, LABOR AND CAPITAL, GIVEN TYPICAL CROPPING PATTERN, 1975^{1/}
(In Lempiras)

	<u>Corn</u>	<u>Beans</u>	<u>Rice</u>	<u>Sesame</u>	<u>Composite</u> ^{2/}	<u>Total</u> ^{3/}
Value of Production/mz.	270.19	253.74	599.74	191.92	313.42	313.42
less: Costs of Inputs/mz.	138.34	72.16	138.51	63.14	132.92	132.92
Returns to land, labor, and capital/mz.	131.85	181.58	411.23	128.78	180.50	180.50
Number of Manzanas	7,053	1,910	1,495	75	10,533	11,038
Value of Production	1,905,650	484,643	896,611	14,394	3,301,298	3,459,530
less: Costs of Inputs	975,712	137,826	231,822	4,736	1,400,096	1,467,171
Return to Land, Labor and Capital	929,938	346,817	614,789	9,658	1,901,202	1,992,359

1/ Assumes the existence of access roads.

2/ Calculated by summing the totals for corn, beans, rice and sesame and dividing by number of manzanas to calculate unitary figures.

3/ Includes 505 manzanas not in basic grains, whose returns are calculated assuming similar values to the composite cropping pattern.

Source: Tables P-1, P-3, P-4, P-6, P-7, P-9 and A-7.

TABLE AR-2

ESTIMATE OF RETURN TO CAPITAL AND ESTIMATE RATE OF RETURN ON
SHORT-TERM CREDIT FOR 40 ASENTAMIENTOS, 1975 1/
(In Lempiras)

Return to Land, labor and Capital (from Table AR-1)	1,992,359 (11,038 mz. x L. 180.50)
less: Opportunity Cost of Labor	567,360 (L. 2.0 x 180 days x 1,576 families)
less: Opportunity Cost of Land Rent	<u>176,608 (11,038 mz. x L. 16)^{2/}</u> 1,248,391 (113.09/mz.)
Short-term Credit (one year)	4,068,200
Rate of Return on Short-term Credit	30.7%

1/ Assumes the existence of access roads.

2/ The estimated land rent of L. 16.0 per annum is lower than the national average of approximately L. 28.0 per annum because these lands lack access and are underutilized.

TABLE AR-3

ESTIMATE OF NET RETURN ON CREDIT, 1975-1978
(In Thousands of Lempiras)

	1975	1976	1977	1978
Cultivated Area (mz.)	11,038	13,246	15,395	19,094
Number of Families	1,576	1,891	2,269	2,723
<u>Return on Credit</u>				
Amount of Short-term Credit Outstanding	4,068.2	4,851.8	5,852.0	7,029.6
Return on Short-term Credit Outstanding	1,248.9	1,498.7	1,798.4	2,158.1
Amount of Medium-term Credit Outstanding ^{1/}	1,017.0	1,220.4	1,464.4	1,757.4
Return on Medium-term Credit Outstanding ^{1/}	312.2	374.7	449.6	539.5
Total Return on Credit	1,561.1	2,047.3	2,462.4	2,972.0
Less: Costs of Technical Assistance ^{2/}	190.0	220.0	260.0	300.0
equals: Net Return	1,371.1	1,827.3	2,202.4	2,672.0

^{1/} Discounted present value of future income associated with medium-term investment is assumed to be at least equal to return in basic grains.

^{2/} Not borne by asentamiento but charged to the project in this analysis, consist of salary costs and support costs totalling L. 10,000.

Source: Tables AR-1 and AR-2.

TABLE AR-4

ESTIMATES OF AVERAGE RATE OF RETURN ON TOTAL INVESTMENT IN MODEL ASENTAMIENTOS, 1975-1978
(In Thousands of Lempiras)

	1975	1976	1977	1978	Average Annual 1975-1978
INVESTMENT (Cumulative)					
Credit Fund ^{1/}	5,085.2	7,322.6	9,804.2	12,578.6	8,697.7
Access Roads	<u>2,528.0</u>	<u>5,056.0</u>	<u>5,056.0</u>	<u>5,056.0</u>	<u>4,424.0</u>
Total Investment	7,613.2	12,378.6	14,860.2	17,634.6	13,121.7
Net Return	1,371.1	1,827.3	2,202.4	2,672.0	2,018.2
Rate of Return, %	18.0	14.7	12.5	15.2	15.4

^{1/} Represents total amount invested in credit fund, not amount of credit outstanding.

Source: Tables AR-1, AR-2, AR-3.

Table AR-5

**ESTIMATED INCREASES IN FAMILY INCOME AND IN EMPLOYMENT BECAUSE OF ASENTAMIENTOS-
AND ACCESS ROAD CONSTRUCTION. (1974-1978)**

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1974-1978</u>
Family Income (Asentamientos)					
Number of Families	1,576	1,891	2,269	2,723	-
Total Income (L. 000) ^{1/}	1,846.9	2,216.4	2,659.6	3,195.1	9,918.0
Income per Family (Lempiras)	1,172	1,172	1,172	1,173	1,172
Increase in Family Income (L. 000)	1,374.1	1,649.1	1,978.9	2,378.2	7,380.3
Employment (000s of MD)					
Employment in Asentamientos ^{2/}	553.2	663.7	796.4	955.8	2,969.1
Increase in Employment (Asentamientos)	269.5	323.4	388.0	465.6	1,446.5
Increase in Employment (Roads) ^{3/}	472.5	472.5	-	-	945.0
Total Increase in Employment	742.0	795.9	388.0	465.6	2,391.5

^{1/} Does not include any increases in income due to access road program.

^{2/} Assumes 351 days of work per family, which was calculated on the basis of Tables P-1, P-3, P-4, P-6, P-7 and P-9 of this paper.

^{3/} Assumes 1,800 MD/KM on roads being improved (175 KM) and 3,500 MD/KM on roads being constructed (see discussion on estimated costs of access roads in Section II.B.6.).

Source: Tables AR-1, AR-2 and AR-3.

SECTION III - TECHNICAL SOUNDNESS

A. The Policy Framework

1. Credit Policy

INTRODUCTION

In Honduras, the Central Bank establishes and implements credit and monetary policies which directly control interest rates, money supply, and lending channels. Policy instruments used by the Central Bank include: a) Reserve requirements; b) Rediscount rates and assigned quotas for rediscount; c) Special purpose funds and loan guarantee programs; and d) Portfolio composition.

Lending institutions providing agriculture credit in Honduras include private and state banks, one financiera (Financiera Hondureña, S.A.), one foundation (FUNDHESA) and cooperative-type credit unions and general purpose organizations. These institutions have considerable freedom in determining policies related to the type and purpose of agricultural loans, as well as the delivery system used and ancillary services involved. This freedom allows considerable sub-allocation of available credit within the general allocation framework of the Central Bank.

Existing Central Bank Policies - Presently, interest rate limits range from 14 percent to 13 percent for personal loans (depending on size) and 9 percent for agricultural production loans, regardless of size. Marketing loans have an interest rate limit of 18 percent. These interest rate limits apply to loans made by commercial banks, state development banks, financieras and savings & loan associations. They do not apply to cooperatives, federations or campesino groups. Interest rates paid on deposits vary from 4 percent for demand savings accounts, to 7 per cent on certificates of deposit, with savings and loan associations allowed to pay 8 percent in certain cases.

The Central Bank also specifies a rediscount quota and rate every quarter. In addition, a special rediscount fund outside the quotas has been established for operations related to small agriculture and small industries loans. For these special rediscounts, agricultural loan size cannot exceed \$7,500 (\$12,500 for small industry) and the discount period is for one year (or the term of the loan if less than one year). The fund contains \$7 million and the rediscount rate is 4 per cent (6 percent for marketing). In addition, an agreement is pending whereby the Central Bank will administer a small farmer loan guarantee program under the auspices of the Overseas Private Investment Corporation (OPIC) to continue and expand a pilot program which has been operating

with a few private lending institutions during the past two years. Under the proposed agreement commercial banks may request a guarantee for small farmer loans up to \$7,500. The guarantee will cover up to 75 per cent of each loan and up to 50 per cent of the total small farmer loan portfolio of the participating bank. All small farmer loans apparently will be eligible.

Finally, the Central Bank administers two additional special rediscount funds related to agriculture and agri-business:

- a) A livestock development fund financed from a World Bank loan oriented toward medium and smaller livestock operations and
- b) A guarantee fund for small Industry Development.

In addition to the above policies and programs, the Central Bank has established a loan portfolio limitation of 30 per cent for bank holdings of commercial and consumer loans, thereby orienting commercial bank lending toward production and construction activities.

From an examination of the policies and implementing programs of the Central Bank, despite an overall conservative monetary policy, it appears that an effort has gone into assuring credit expansion for small agricultural producers and their group organizations providing supporting services. In this sense, the Central Bank is providing policy and credit support to the National Development Plan which stresses the goal of liberalizing credit to small farmers and small farmer groups.

Existing Banco Nacional de Fomento Policies - Support for the policies and goals of the National Development Plan is clearly apparent in the activities of the National Development Bank (BNF). It recently has emphasized small farmer lending through cooperatives, associations and other groups. The BNF has found that it can operate much more efficiently in lending to groups rather than to individual small farmers. Recent estimates by the bank indicate that individual small farmer loans cost an average of 27 per cent of the amount loaned, while loans to asentamientos cost 4 per cent and loans to cooperatives cost only 0.26 per cent. ^{1/} It is not surprising, therefore, that the BNF should

^{1/} Preliminary estimates by the BNF credit manager. These figures include only direct personnel costs, and not general fixed cost or risk.

support the National Development Plan orientation to emphasize assistance through small farmer groups.

Interest Rate Policy - Although existing Central Bank policies limit interest rates for bank lending to small farmers and related agri-business at 5 per cent to 9 per cent (18 per cent for marketing), small farmer groups may relend to their members at higher rates. In practice, these rates have been 12 per cent to 14 per cent. One would expect in a situation where there are several different sources of credit from institutions who for organizational reasons, are competitors, the interest rate would gravitate toward the lowest prevailing rate. However, interest rates are not the only cost of borrowing money to a farmer. There also are "private" costs, of delay, timeliness and uncertainty due to inefficiencies in the lending process. The fact that financial intermediaries are able to lend at rates of 12 per cent to 14 per cent, may indicate that such costs as delay and uncertainty are greater than the differential in interest rates. If interest rates were standardized, institutions providing credit would find it necessary to compete, not on interest rate grounds, but rather in areas related to lending efficiency, thereby reducing credit cost discrimination among small farmers. In such a case, if the BNF did not increase its efficiency in order to compete, most of the credit would be channeled through the financial intermediaries.

Not only does this suggest that interest rates be standardized, but there also are telling arguments that the standardized rate should reflect the cost of money to other sectors of the economy. The arguments concerning subsidized interest rates to small farmers were thoroughly debated and analyzed in the February, 1973 AID Spring Review on small farmer credit. The conclusion reached, based on considerable evidence, is that interest rate subsidies are of little significance to the small farmer, in economic terms. This form of subsidy is a cost to the economy which results in little, if any, significant social or individual benefits.

There is evidence that the Spring Review conclusions are valid for Honduras. For illustration, the production cost of corn is shown in the Table below for traditional and intermediate technology levels (at two interest rate levels). Assuming that the availability of credit is the key factor permitting small farmers to shift from traditional technology to intermediate technology, the impact of a change in interest rate from the 9 per cent Central Bank rate and an arbitrary 20 per cent rate is shown. All else equal, the returns to labor, management and land (income over production costs) increase by 317 per cent from traditional to intermediate technology at a 9 per cent interest rate, and by 297 per cent at a 20 per cent interest rate, the difference in income growth in the two cases being negligible in absolute terms.

GOM policy thus far has stressed preferential rates to the productive sectors within a context of a relatively low interest rate structure. Given the complex relationships among the variables involved, the GOM will undertake an analysis of the implications of an increase in interest rates for agricultural credit.

TRADITIONAL VS. INTERMEDIATE TECHNOLOGY CORN PRODUCTION
(One Hectare)*

	(a) (\$ U.S.) <u>Traditional</u>	(b) <u>Intermediate</u>	(c) <u>Intermediate</u>
1. Labor Costs	\$ 82.48	\$ 72.81	\$ 72.81
2. Seed			
a. Improved			
b. Regular	1.41	2.90	2.90
3. Power			
a. Tractor	4.87	18.20	18.20
b. Animal	12.90	14.83	14.83
4. Fertilizers and other chemicals		27.82	27.82
5. Other Costs	13.74	5.19	5.19
6. Sub-Total	115.40	142.68	142.68
7. Interest Charge	\$ <u>5.19</u> ^{1/}	\$ <u>6.42</u> ^{1/}	\$ <u>14.27</u> ^{2/}
8. TOTAL COST	\$ 120.59	\$ 149.10	\$ 156.95
9. Value of Production	77.00	199.43	199.43
10. Net Income	(43.59)	50.34	42.48
11. Benefit/Cost	.639	1.338	1.27
12. Returns to Labor, Management & Land	\$ 39.89	\$ 123.15	\$ 115.29

* Table developed from field survey data collected by the Agricultural Sector Analysis Team.

^{1/} Nine (9) per cent annual rate for six month period.

^{2/} Twenty (20) per cent annual rate for six month period.

Type of Loan and Loan Flexibility - As a general practice, small farmer lending in Honduras is oriented toward individual economic activities, and not toward the total small farm unit as a producing and consuming economic unit. Loans are made for a given number of hectares of corn production, or other basic grains, or for livestock, or fixed number of hectares of diversified crops. Quite often the loans is sufficient to cover only the cost of cash inputs such as fertilizer and other chemicals.

However, the economic ability of a small farmer to capitalize his farm business depends upon total income and total expense. Even though he may borrow money for corn production and have a profitable result, if his total income from all his activities is not sufficient to cover his total production costs and living costs, he will not be able to repay his loan. Thus, small loans should be made on the basis of a farm plan covering all the farmers economic activities, and taking into account the total income required to pay expenses, cover living costs, and provide for some capitalization. If such is not the case, the farmer cannot be expected to repay his loan. It is unrealistic to assume that a subsistence farmer who for the first time is applying a credit financed technology is in a liquidity position to finance from sources other than his credit, family consumption costs to harvest time. This means that the loan must include sufficient funds to pay at least enough of the farm family labor input to cover living expenses.

Further, quite often, the ability of an appropriate production technology to provide reliable net returns is restricted by the lack of some larger term investment such as drainage, storage, fencing, etc. Thus, in determining the economics of the farm unit, both production credit and investment credit must be considered. The only rational way to make these determinations is on the basis of a complete farm plan and cash flow projected forward for the period of the longest term investment being made. Further, lending regulations should not fix an upper limit on amounts to be loaned per hectare and/or per crop, so that farm plans can reflect the needs for the particular farm involved. This does not imply that limits should not be set on overall lending levels to a farm business. AID loan supported credit programs in Honduras will encourage the "whole farm" approach.

Multiple Lending Channels and Supporting Services - The National Development Plan calls for support to and expansion of a variety of lending channels. Special emphasis is to be given to lending through group organizations. Such a policy is consistent with the need to disburse credit more widely and to create competition in lending at the small farmer level. In this way, a small farmer can select the source that for him is the least cost, in terms not only of interest rate, but also of such other costs as timeliness, uncertainty and ancillary serv-

ices.

In terms of BNF operations, 1974-78 credit demand and availability projections indicate that the BNF General Fund for individual small farmer lending is in a relatively better financial position than is the cooperative "window". Further, the Government has set a policy of top priority for asentamientos, as a special group.

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 in such terms as loan criteria, procedures, levels, terms and ancillary services required, as well as viable enterprise mixes and minimum operating scales.

In the case of the cooperative window, sufficient experience exists to permit AID loan support for a generalized program. GOH small farmer policy contemplates attempts to motivate the private banking system to enter, to a greater degree, in to small farmer lending. Since the Central Bank is already moving ahead in this area and since OPIC will provide assistance through its guarantee program, the Mission is not proposing an experimental program in this area pending evaluation of the effectiveness of these new efforts.

2. Marketing and Price Policy

a. Farm Products

The Honduran Government continues to pursue a policy of promoting production of agricultural commodities for export. Aside from the large-farm commercial agriculture commodities -bananas, coffee, sugar, beef and lumber - which traditionally go to the extra-regional U.S. and European markets, Honduras has a particular interest in promoting the trade of basic food grains. The Honduran small farmer has considerable participation in the national production of basic grains.

The Central American Common Market (CACM) countries have been Honduras' most important trading partners in basic grains. Because of the importance of regional basic grains trade, Honduras has continued to consult with its CACM partners on grain prices, production and trade policy, despite its dissatisfaction with other aspects of regional economic integration. Honduras continues to meet yearly with its Common Market partners as an active member of the regional Coordinating

Commission for Marketing and Price Stabilization (CCHEP) to exchange information on price policy and production projections. Before trading grains outside the region, Honduras and CACM neighbors consult to determine if regional stocks are available at competitive prices. These consultations have led to recent agreements to trade Honduran beans for Nicaraguan rice, for example.

The GOH uses two basic tools to implement its price policy. First, the National Development Bank (BNF) is the single authorized agent to export basic grains, and private participation is allowed only with prior approval of the BNF. Secondly, the BNF has expanded its internal storage and buying capacity for basic grains. These two factors have enabled the BNF to set effective floor prices (with private buyers pegging prices a little in excess of BNF posted prices) and maintain them below CACM market prices. Very recently, however, the GOH has recognized the depressing effects of a low price on production and small farmer incomes; new purchase prices set by the grain marketing division, effective in September, 1974, are significantly higher than those for 1973. The following table compares the new prices to those it has replaced.

These new prices are considerably higher than those assumed in the profitability analysis (Section III B).

	<u>National Development Bank</u>		<u>Percentage Change</u>
	<u>Posted Grain Prices</u> ^{1/}		
	<u>1973</u>	<u>1974</u>	
Corn	L. 6.50	L. 9.00	+ 38.5
Red Beans	14.50	21.00	+ 44.8
Black Beans	13.50	19.00	+ 40.7

1/ Prices are given for San Pedro Sula and Tegucigalpa. Prices at rural buying stations are one Lempira lower than these prices.

These recent changes represent a shift from an urban-biased price policy to one which reduces the disparity of price policy between urban and rural inhabitants. The new policy represents a positive step in improving the terms of trade between the agricultural and other sectors of the economy.

b. Farm Inputs

Price policy for agricultural inputs has been one of providing necessary inputs to farmers at low prices. Policy implementation is somewhat passive due to the fact that all agro-chemicals and farm machinery are imported. Two implementation tools are utilized. First, the GOH applies low import duties on items imported for farm use. This includes trucks and four-wheel drive vehicles, as well as fuel, fertilizer and pesticides. Secondly, the GOH, through the Fomento Division of the BNF and the National Extension Service (DESAGRO) markets agro-chemicals, farm implements, and certified (or improved) seed of certain crops.

The BNF maintains a network of retail stores throughout the country. Although it is not clear which stores operate at a loss or profit, the BNF justifies their continued existence on the basis of generating competition. There is a strong fear that marketing monopolies of agricultural inputs would appear if the bank closed down this operation. In addition, a more active role is envisioned for the BNF outlets in the asentamiento program in the provision of agro-chemicals and farm implements.

The seed processing plants, managed by DESAGRO, are the means by which improved and certified seed, primarily for basic grains, are produced and distributed to Honduran farmers. Contracts are let to private producers of seed, which is processed in the two DESAGRO plants (San Pedro Sula and Tegucigalpa). These operations have been characterized by low efficiency and excess capacity. The sector program will provide assistance in improving seed supply operations.

c. Grain Storage

The BNF has a terminal grain storage capacity of 629,200 qq., equally divided between Tegucigalpa and San Pedro Sula. In addition, it has 16 intermediate storage facilities with a combined capacity of 284,500 qq. Thus total BNF basic grains storage capacity amounts to 913,700 qq (approximately 41,500 TH). The BNF has estimated that in 1977, the following amounts of grain will enter into marketing channels:

1. Grain sorghum	20,608 MT
2. Beans	36,313 "
3. Corn	156,352 "
4. Rice	21,193 "
Totals	<u>234,466 MT</u>

The storage capacity of the BNF is sufficient to cover approximately 18 per cent of the projected 1977 marketed grain. FAO recommends that a regulating agency have a capacity to store 18 per cent to 20 per cent of marketed grains in order to carry out an effective price support program. It appears that BNF capacities are sufficient in aggregate terms to realize its function of price stabilization.

A recent analysis of the BNF grain stabilization program ^{1/} indicates that most existing storage facilities are adequately located (three small graneries are to be relocated), and new storage facilities are to be limited to 9,000 MT, in three new locations. Recommendations are made for small buying stations and buying agents to be located in areas too far from existing facilities.

BNF experience shows that most small producers who use BNF facilities live within 20-25 Km. of the facility, thus suggesting that small rural buying stations and itinerant buying (commission) agents could provide market access to BNF facilities for many small farmers who now are too far from a market facility.

3. Legislation - (Agrarian Law)

Background

Agrarian reform activities were sporadic in Honduras until a comprehensive legal base was established by the Agrarian Reform Law of 1962, which inter alia created the National Agrarian Institute (INA). The proposition that Honduran lands, public and private, fulfill social as well as economic functions was thereby legislated. Procedures were developed within the law to permit privately-held land to pass to the state and eventually to agrarian reform beneficiaries. Return of land to the State was based on a tax system whereby unused land was taxed at a progressive rate over a period of eight years and non-payment of taxes constituted grounds for expropriation. The law provided a means for land owners to appeal actions taken by INA through the courts.

Soon after the law was passed it became apparent that either extensive litigation or non-enforcement of the tax system would render it inoperative. Accordingly, GOH land reform efforts have been restricted primarily to national lands, the scope of which was too limited to have any appreciable impact on the problem. Year by year the intensity of

1/ "La comercialización de Granos Básicos y Proyecto Construcción de Silos Rurales en Honduras - Banco Nacional de Fomento" 30 de mayo, 1973.

land invasions increased as organizations formed, providing a political base for peasants and constituting a threat to the stability of the government. This threat was cited as a primary reason for the change in government in December 1972; after which Decree No.8 was announced which directly responded to the demands of the peasant groups.

Decree No.8 was, however, only a stop-gap measure, its validity running for only two years. It has already accomplished its purpose by permitting immediate occupation by peasants of private lands through forced rentals, thereby negating the procedural requirements of the progressive tax and lengthy adjudication under the 1962 law. It has also given the government time to develop an agrarian reform program and draft a law which will provide the legal basis for the new program. Thus Decree No.8 constitutes, in fact, an amendment to the law of 1962, which will remain in effect until replaced by the new agrarian reform law which is expected to be published in June 1974. While the new law itself has not yet been promulgated, the GOH has set forth guidelines for agrarian reform.

The outlines of the agrarian reform program have been described elsewhere in this paper. Its underlying strategy is based on a redistribution of the factors of production ---land and credit--- through which increased production will result by improved use of idle land and idle labor. This increased production will accrue to those who own the production factors, the peasants who receive land and employ their own labor. This additional income for the peasant will permit him to rise to a higher standard of living with a more equitable distribution of income resulting. Increments to income, not existing income, will be redistributed to the peasants. This incremental income will generate demand for goods and services from the other sectors of the economy, thereby stimulating their growth. Meanwhile, land owners who fear expropriation will attempt to meet the social utility criteria to be established under the law and through these efforts will increase the intensity of the use of their land. All of which results in the agriculture sector becoming the engine of growth for the national economy.

Assessment

To judge the soundness of the approach, three basic areas must be examined. The first concerns whether income can be redistributed by the redistribution of factors of production. The answer is a conditional yes. A redistribution of the factors of production should result in an absolute increase of income for the beneficiaries of the agrarian reform. However, as demonstrated in the preceding profitability section, a sustainable increase in income requires a change to the use of a higher technology or to the production of higher valued products. Reliance on traditional technology will limit potential income increases; thus

redistribution of land itself will not permit the dynamic expansion of the economy envisioned in the above scenario. The initial drafts of the proposed program and Decree No.8 recognize that technical assistance and credit for inputs must be an integral part of the reform program.

A second area of inquiry concerns the zeal with which many agrarian reform attempts throughout the world have pursued land distribution at the expense of national production. It is clear that the GOH has considered this danger. The law will permit continued existence of productive farms regardless of size and specifically will exempt from expropriation, land producing traditional export crops. Furthermore, other farm units which are exploiting land according to social use criteria will also be exempted; and land reform will be of secondary priority to the preservation of the natural resource base and specifically the need to protect national forest and watersheds.

A potential problem area concerns the possible abolition of rental agreements. Its primary purpose to preclude the absentee landlord pattern, it would present impediments to the joining of land and capital in the production of certain crops. It would be, nevertheless, consistent with the basic philosophy of the agrarian reform program -- land to the tiller.

A third set of concerns involves the agrarian reform program's reliance on the concept of group farming. As discussed below, the group farming or worker-owned agricultural enterprise has been adopted after intensive consideration of the alternatives. There is expected to be provision in the law for farmers outside asentamientos to participate in the agrarian reform program. Clearly, however, emphasis is being placed on the worker-owned and operated agricultural enterprise as a major step in avoiding the creation of a new agrarian problem in Honduras, i.e.: a minifundio economy of subsistence farmers. The GOH is acutely aware that only through organized groups - cooperatives, asentamientos, pre-cooperatives - will it ever be able to reach the masses of small farmers and landless laborers with needed services and credit to improve their lot. The GOH expects the asentamientos to become completely private entities to the point where, eventually, no special public sector assistance will be required. Published information refers to their eventual organizational structure as "agricultural firms" which will be able to produce a variety of products and, depending on special situations, to engage in processing and other agro-industrial activities.

The decision of the GOH to emphasize the worker-owned and operated agricultural enterprise as its major address to the problem of reaching the beneficiaries of the reform with needed services, was arrived at after long study of the alternatives. The GOH has had the benefit of technical assistance from the research experience of the Wisconsin Land Tenure Center and the Agrarian Reform Projects of the Inter-American Institute for Agricultural Service. GOH officials have traveled to several

countries in Latin America to review "on the ground" the various approaches to agrarian reform. Moreover, there exist in Honduras successful examples of group farm enterprises organized by the Agrarian Reform Institute as long ago as 1965.

Recently, the Inter-American Institute for Agricultural Sciences published the results of a study of three cases of cooperative group farming businesses in Honduras outside of the asentamiento program. Such factors as intensity of land utilization, use of labor, use of modern production technology, productivity, capitalization, and participation in administration and decisions were studied. In these cases, the groups settled on national lands and the people were drawn from the agricultural workers of the area who either rented land or worked on farms as salaried labor. In many respects they are the prototypes of the Decree Number Eight reform asentamientos.

Although the results are mixed, they indicate that Honduran peasants in group organizations do adopt productive technology, participate in decision-making, generally achieve a high degree of land utilization and thus are able to pay better than average annual returns to the members. And it appears that they have used the higher level economic returns to improve their standard of living.

The asentamiento plan which the GOR has adopted as its principal thrust represents what might be viewed as a "middle road" approach to establish farm businesses of efficient commercial scale in which the principal factors of production (land, labor, capital) are managed and controlled by the workers who share the profits and losses of the business. The extremes to this "middle road" the collective state-owned farm and the establishment of a multitude of small, individually-owned parcels (minifundio) have been rejected. The first, because experience has shown that, in most cases, the incentives for the individuals to work are lacking. The second, because it is more difficult to supply these small farm businesses effectively with the credit, technical assistance and marketing services required to make them efficient economic competitors. In considering the feasibility of this approach, it is important to note that peasant labor unions and cooperativism have been powerful forces in Honduras. (See ANNEX I, C). Farming on a "group business" basis has been somewhat limited as mentioned above.

The model asentamiento program is designed inter alia to assist in establishing viable approaches for this organizational alternative in the Honduran context.

Conclusion

In sum, the proposed agrarian reform law, as its outlines are understood, will provide the legal base for a feasible agrarian reform program. The primary problem, as discussed elsewhere in this paper, will be the ability of the GOH to mobilize the necessary resources, human and financial, to service existing asentamientos and provide for later expansion.

Implication for AID program

Decree No.8 provides a temporary legal basis for the agrarian reform program. Hypothetically, asentamientos on rented private property will lose their status when the law expires in December 1974. The proposed law whose enactment is anticipated well before then, is expected to provide for expropriation of these properties. There is no question concerning the intention of the government to enact a new agrarian law. After weeks of careful drafting and consultation within the government, the law is nearly ready for promulgation. Nevertheless, the present status of asentamientos on private property is technically tenuous. The stated policy of the government with respect to Decree 8 lands is that they will be expropriated.

The model asentamiento and access road activities depend on asentamientos having secure status. Some 50 per cent of the asentamientos in the proposed AID program are on properties rented under Decree No.8. Accordingly, until these properties are given secure status, AID cannot proceed with the financing of the program, since this portion of the loan (asentamiento model program) is a key and, indeed, a unifying element of the program. Therefore, the Mission feels that the best course of action would be to authorize the loan now with a new agrarian law as condition precedent to loan signing, on the assumption that the expropriation of the Decree 8 lands will be provided for therein. The condition precedent to signing will require enactment of the law and provision for assuring secure status of lands for AID assisted asentamientos either therein or separately. The Mission is fully confident that the new law will be promulgated during the month of June 1974.

4. Budgetary Analysis

Financial Requirements of the Program

The proposed program will require a total of approximately \$ 0.7 million in new expenditures on the part of the Honduran Public Sector, as detailed below in Table III-1. A further breakdown by program element is given in Table 8 of Annex II.

TABLE III-1

Financial Requirements of Loan Program, 1974-1978
(\$000)

Type of Expenditures	Total	GOH	AID
Real Investment	3912	852	3060
Financial Investment	10355	4,055	6300
Increased Current Expenditures	6840	3,600	2640
Total Expenditures	20707	8,707	12000

Financial and Budgetary Prospects

In order to compare the requirements of the proposed loan program with financial resource availabilities, the programmed public sector projects having the most immediate relation to the different loan program elements were separated out of the National Plan's preliminary list of projects. Twelve projects from this still tentative list appeared to have relation to one or more of the loan program elements. These projects, their relationship to the program elements and their financing status are detailed in Table 9 of Annex II. It should be noted that several program elements relate to more than one of programmed projects and that two of the program elements do not have corresponding projects programmed in the National Plan. These two elements are the Cooperative Window and Coordination, Management Planning, and Evaluation. Table III-2 summarizes the GOH programmed projects. Comparing the figures in Table III-2 to those in Table III-1, it is clear that the Honduran public sector has programmed sufficient financial resources for projects closely related to the program elements to provide the

required counterpart and to meet the increased levels of current expenditures required to implement successfully the program elements (even those not previously contemplated in their programming, i.e. the Cooperative Window and the Coordination, Management, Planning and Evaluation elements.)

TABLE III-2

Programmed Projects Relating to Sector Program Elements, 1974-1978
(\$000)

<u>Type of Expenditure and Status</u>	<u>Number of Projects</u>	<u>Total Cost</u>	<u>Internal Funds</u>	<u>External Funds</u>
<u>Real Investment</u>	3	15,208	10,115	5,093
in execution	1	2,500	2,500	-
financed	1	4,500	2,700	1,800
not financed	1	8,208	4,915	3,293
<u>Financial Investment</u>	2	29,875	26,575	3,300
in execution	1	1,085	1,085	-
not financed	1	28,790	25,490	3,300
<u>Current Expenditures</u>	7	46,909	42,911	3,998
in execution	2	2,340	2,340	-
not financed	5	44,569	40,571	3,998
<u>Total Expenditures</u>	12	91,992	79,601	12,391

Source: Table 9, Annex II

DESAGRO budget projections which are summarized in Table III-3 indicate that extension personnel will have adequate support. In 1974, salary costs total 64% of operating costs while personnel support costs total 36%. Over the period, in every year, the projected increases in support costs are substantially greater than the increases in personnel salary costs. By 1978, personnel costs will total 56% of

operating costs and support costs will have increased to 47% of operating costs. Provision has also been made in the projected budget for increasing salaries from an average of L. 5,166 in 1974 to an average of L. 6,253 in 1978 (these increases also reflect a higher percentage of technical and university personnel).

TABLE III-3

PROJECTION OF BEEAGRO'S OPERATING COSTS, 1974-1978
(000's of Lespires)

	1974	1975	1976	1977	1978
Total Operating Costs	4762	7862	8278	8976	10135
Salary Costs	3083	4632	4674	4997	5384
Personnel Support Costs	1714	3230	3604	3979	4751
Salaries as % of Operating Costs	64	59	56	56	53
Support as % of Operating Costs	35	41	44	44	47
% Increase in Personnel	-	27.8	7.0	10.2	9.1
% Increase in Salary Costs	-	52.0	1.0	7.0	7.7
% Increase in Support Costs	-	86.0	12.0	10.0	19.0

Source: BEEAGRO Budget Projections

Have than sufficient resources to finance the GOH portion of the program are programmed in the National Plan. There remains, however, the question concerning the plan's programming on the one hand, and resource availabilities which can reasonably be expected on the other. It can tentatively be concluded that the Plan's programming is ambitious, but financially feasible. The highlights of the plan's Public Sector programming are summarized in Tables 6 and 7 of Annex II. Table III-4 summarizes planned public sector expenditures and their financing for

TABLE III-4

**PLANNED PUBLIC SECTOR EXPENDITURES AND FINANCING,
1974-1978 (MILLIONS OF LEMPIRAS)**

Expenditures and Financing	1974 - 1978
I Current Income	2,101.9
II Total Expenditures	2,898.0
Current Expenditures	1,535.7
Capital Expenditures	1,362.3
Real Investment	863.3
Financial Investment	83.2
Debt Amortization	244.3
Transfers to Development Banks	91.2
Reserve (inflation, etc.)	75.3
III Deficit (I-II)	796.1
IV New Indebtedness	796.1
External Debt	586.6
Internal Debt	209.5

Source: GOH Planning Council, preliminary figures.

the planning period. For the purpose of this paper it is interesting to note that under capital expenditures, there is programmed L.91.2 million for transfers to Development Banks (BANMA and BNF), L. 83.2 million in financial investment, and a reserve of L. 75.3 million for expected inflation. The internal debt component averages L. 41.9 million per year which is slightly lower than in recent years and not expected to cause major problems.

The current income item is perhaps the plan's weakest link. As may be noted from Table III-5, a transfer of L. 235.0 million from the

newly formed forestry corporation is programmed into the Plan. According to Planning Council officials, initial figures on the corporation's operations indicate that these expectations perhaps err on the conservative side. However the long-run consequences of the corporation's operations on the private forestry operators are unknown, and expectations could be somewhat optimistic. Moreover, it can be observed in Table III-5 that current income excluding the forestry corporation transfers are expected to increase at a rate of 13.8 % per annum during the plan period. This figure compares to an 11.1% rate per annum during the 1971-1973 period. Again, according to Planning Council officials, the newly imposed banana import tax is not reflected in these figures; what is reflected however, are substantial increases in revenues resulting from improvements in tax administration at both the national and local levels. The GOH appears to be very serious in its commitment to improved tax administration and such increases in revenues could indeed be forthcoming from the program. In sum, it may be safely concluded that adequate provision is made in GOH programming for the GOH contribution to the loan program.

TABLE III-5

HONDURAN PUBLIC SECTOR CURRENT INCOME, 1971-1978

(Millions of Lempiras)

Year	Current Income <u>1/</u>	Transfers from Forestry Corporation	Total Current Income
1971	210.0	-	210.0
1972	224.8	-	224.0
1973	259.4	-	259.4
Rate of Growth			
1971 - 1974	11.1	-	-
1974	281.2	35.4	316.6
1975	327.7	40.4	368.1
1976	367.8	45.9	413.7
1977	419.1	52.5	471.6
1978	471.1	60.8	531.9
Total, 1974 - 1978	1869.9	235.0	2101.9
Rate of Growth			
1974 - 1978	13.8	-	-

1/ Excludes transfers from Forestry Corporation.

Source: GOH Planning Council, preliminary figures

B. Economic Analysis

1. Profitability Analysis

For the credit program to be successful, there must be an opportunity (usually a new opportunity) for farmers to make what is for them a profitable investment with the credit extended to them. Opportunities may be of various kinds: new technology, the introduction of new seeds or fertilizer, the opening of new land areas, etc. To be effective, the credit must go to small farmers who have the opportunities, knowledge, ability and will to make profitable investments.

From the standpoint of a credit program, a profitability analysis should be made for both the economic activities to be financed (such as the different crops or livestock activities) and for the entire economic unit financed, since the economic unit is the basis for determining repayment capacity. In the case of Honduras small farmer agriculture, the entire economic unit is either the family farm unit or the asentamiento, where the entire asentamiento and its members are taken as a single producing and consuming unit.

a. Profitability of Crops to be Financed Initially

Several factors affect the profitability of crop production activities involving the use of new technology (new to the farmer).

- Many agricultural innovations are relatively high risk.
- The absence of an adequate marketing infrastructure may make investment unprofitable.
- Adoption of new practices may be constrained by a lack of inputs (seeds, pesticides, fertilizers, etc.).
- In many cases, recommended practices may be not well adapted (or inappropriate) to small farmer agriculture.
- Traditions, attitudes and values of farmers.
- Land tenure patterns may restrict the adoption of new technologies, as well as investment patterns.

Presently, all such information is not yet available in Honduras. This analysis thus is limited to crop budgets "representative" of the practices and technologies considered to be suitable for asentamientos and small farmers, based on field experience and existing survey data (provided by the office of agricultural sector analysis).*

* Data from BNF and the Natural Resources Ministry was considered also, but these seem to be adapted to types of technology more suitable for larger size farmers.

(1) Profitability and Technology for Corn Production

The data, summarized in Table P-1, P-2 and P-3, shows profitability for corn production at three levels of technology: traditional, semi-technified (intermediate technology) and technified (high technology) for asentamientos and small farmers. Based on these data, the highest level of profitability (Benefit/cost ratio) and returns to labor for first crop corn is obtained by adopting an intermediate technology. The adoption of a high technology level yields about the same level of profitability, but with higher costs (investment) and lower returns to labor (greater use of machinery), management and land). Therefore, the intermediate level of technology for first crop corn is the most suitable to be adopted from a returns point of view. On the other hand, the traditional level of technology for corn should not be adopted or financed unless specific profitability estimates under specific conditions within certain regions show satisfactory returns. For second crop corn, the results are quite similar: use of traditional technology results in a less than 1.0 benefit-cost (B/C) ratio while intermediate technology yields a B/C ratio greater than 1.0, and greater returns to labor, management and land.

(2) Profitability and Technology for Rice Production

Tables P-4 and P-5 show the costs of production and profitability for rice. Rice cultivation can produce only one crop a year under non-irrigated conditions. This must be considered when comparing rice profitability results with those of other crops. All three levels of technology show high levels of profitability (B/C ratios) and returns to labor, management and land. Therefore, adoption of either intermediate or high technologies appear to be appropriate. Final selection of the appropriate technology for adoption and financing must be based on regional and other variables (to be obtained from the baseline study). In order to optimize both production and returns, the high level of technology should be pursued wherever possible (subject, of course to many other variables such as availability of inputs and other limiting factors such as credit, technical assistance, management capability, etc.). In the case where overall input and credit availabilities are restricted, the intermediate level of technology may provide the greatest relative return.

(3) Profitability and Technology for Edible Bean Production

Costs of production and profitability results for first

and second crop beans are shown in tables P-6 and P-7. For first crop beans very small differences exist in levels of profitability (B/C ratios) and returns to labor, management and land, as between traditional and intermediate levels of technology. Although both profitability levels are satisfactory, limited availability of fertilizers, lower investment requirements and low management capability, would indicate that traditional technology is the recommended level for small farmers. 1/

Other on-farm variables (location, soils, etc.) and farmer abilities may be determining factors for the technology recommendations. Such information must come from a base line study. Yields, profitability levels and returns to labor, management and land are higher for second crop beans than for first crop beans. Use of intermediate technology results in somewhat higher levels of returns to labor, management and land, although this level calls for rather high use of fertilizers, which may be a limiting factor, thus suggesting that the traditional technology to be the preferred alternative.

(4) Profitability and Technology for Intercropped Corn-Beans

Table P-8 shows costs of production and profitability for intercropped corn-beans. This activity is restricted to limited areas of the country.

Higher levels of production, profitability (B/C ratio) and returns to labor, management and land, are obtained by adopting a traditional level of technology for corn-beans intercropping. Based on these data, traditional technology would be preferred for credit use, as an alternative second crop in some areas. Additional experimental research is needed to find ways (new varieties, cultural practices, etc.) to improve intercropping production technology.

1/ It should be pointed out in the case of edible beans, indications are that there does not exist a reliable intermediate level of technology involving the use of improved seed which responds reliably to fertilizer applications and other improved cultural practices.

(5) Profitability and Technology for Sesame Production

Table P-9 shows the costs of production and levels of profitability for production of sesame with intermediate technology. The profitability level is high, but returns to labor, management and land are relatively low as compared with other crops (corn, beans), because of relatively low labor requirements.

(6) Profitability and Technology for Grain Sorghum Production

Costs and profitability levels for grain sorghum production are shown in Table P-10 for intermediate and high technology levels.

Higher levels of profitability (B/C ratios) and returns to labor management and land are shown for intermediate technology. However, these returns are relatively low as compared to other crops, because of the relatively high use of machinery. It appears that the budgets shown in Table P-10 are based on technologies used by larger farmers which may not be appropriate for small farmers, or in an excess labor supply area. Research must be carried out to identify technologies suitable for small farmers.

b. Profitability at the Credit Beneficiary Level

In order to estimate profitability for small farmers, several annual crop combinations have been selected as examples to calculate the returns to labor, management and land (family income) to be obtained from one hectare of land. Selections of these combination were made on the basis of the most commonly used crop rotations. Other activities, such as livestock production, poultry, permanent crops (fruits, cashews), on which additional data are needed to determine profitability, have not been included here. The baseline study should provide information for this type of analysis.

It appears reasonable to assume a minimum family income target for credit beneficiaries of about 650 Lempiras per year for the first years of the program. That is close to the equivalent annual income earned by a rural worker at the minimum wage, assuming full year employment (L.624). Over the long-run, however, a higher level family income target should be established, sufficient to provide an adequate minimum standard of living for the average size farm family, plus a margin for savings and re-investment. Given this

family-income target (L.650/year) and the results of the different crop combinations (crop plans) considered, minimum areas (Has.) necessary to generate this family-income target are summarized in Table 10 under two alternatives:

- i) Assuming that results will come about as specified in the budget.
- ii) Assuming that other variables and risk reduce expected returns to labor, management and land by 20%.

These results show, given these crop production alternatives, that credit should not be extended to farmers with cultivated areas smaller than 1.27 manzanas (first alternative, crop Plan A), unless crop production is related to other production activities such as pork or poultry production, and the returns from this activity are high enough to provide the minimum family-income target (or unless the farmer has part time off-farm employment).

MINIMUM CROP AREAS TO SATISFY MINIMUM FAMILY-INCOME TARGET
UNDER ALTERNATIVE CROP PLANS AND RETURNS ASSUMPTIONS

Crop Plan	<u>First Alternative</u>				<u>Second Alternative</u>			
	Returns/Ha. Lps.	Minimum Crop Area		Returns/Ha. Lps.	Minimum Crop Area			
		Has.	Mz.		Has.	Mz.		
A	741.20	0.88	1.27	593.04	1.10	1.59		
B	556.43	1.17	1.20	445.14	1.46	2.12		
C	550.37	1.15	1.67	452.80	1.44	2.1		
D	420.19	1.55	2.25	336.15	1.93	2.80		
E	487.35	1.33	1.93	389.90	1.66	2.41		

The second alternative in Table P-10 provides an indication of the adjustments that would be required when credit is provided to farmers facing specific conditions (quality of natural resources-soils, water supply, etc. availability of access roads, marketing facilities, etc.) which reduce expected returns to land, labor and management by 20 per cent.

The table also shows how different crop combinations may affect the profitability of farm units, and that criteria for selection of farmers as borrowers with adequate repayment capacity cannot be rigid. Rather, the criteria should account for several factors: crops and other economic activities, availability and quality of natural resources, farmer's attitudes, risks, etc. For example, the quality of natural resources and/or risks for certain crops in specific areas may reduce the expected returns to land, labor and management by much more than the arbitrary 20 per cent selected for demonstration in Table 10. In such cases the minimum crop area required to satisfy the minimum family-income target and insure repayment capacity would increase accordingly. The baseline study will be designed to provide information about these factors.

The results discussed above can be applied to asentamientos for demonstration purposes. For example, if an asentamiento is planning to produce corn and sesame as first and second crops, using intermediate technology of production (Plan B-2) the average cultivated area per family "asentada" should be no less than 2.12 manzanas per family, if the asentamiento unit is to be expected to have adequate repayment capacity, i.e., be "profitable" as an economic unit.

The areas specified in Table P-10 should be considered as absolute minimums for covering necessary consumption requirements. Some degree of capitalization opportunity is needed to improve farming efficiency, thus requiring larger areas per farm family than these minimums. In general terms, it would be advisable to establish a minimum of 3 Hect. per farm (family), for regions or areas where the cropping patterns used in this analysis are predominant and expected yields are similar to those used in the analysis.

c. Other Production Activities That Should Be Considered

A more detailed profitability analysis will be carried out on the basis of the results of the the cost of production study.

Other production activities can then be considered. Production activities which may enable even smaller farmers to become viable credit clients such as production of pork, poultry, yuca, cashews, honey, must be analyzed as opportunity investments for small farmers and asentamientos.

Preliminary information on these activities indicates

that some of them may well be adapted to small farmer conditions. An example of this is the case of pork production.

A pork production operation of 12 sows and 1 boar with a production capacity of 166 market size hogs, can be carried out efficiently by an adequately trained small farmer. It should be noted, however, that the high level of technology implied by this investment program indicates a capital intensive operation, which may not be appropriate to the small farmer. Further information is needed to identify a more appropriate labor-intensive technology, associated with a more extensive use of other factors fitted to small farmer conditions. Further work also is needed to establish profitable technologies adapted to small farmer conditions for poultry production, vegetable production, and production activities that make more intensive use of labor relative to capital and land resources.

In an overall profitability analysis (repayment capacity) of the borrower, other sources of income also should be included (non-farming activities).

INCOME RESULTS OF SELECTED
CROP COMBINATIONS

Plan A.

		<u>Lempiras/Ha.</u>
First crop:	Rice, High technology:	741.30
Second Crop:	None (where rice is grown, only one crop per year is obtained)	
Returns to labor, management and land:		<u>741.30</u>

Plan B.

First crop:	Corn, intermediate technology:	243.22
Second crop:	Beans, intermediate technology:	<u>313.21</u>
Returns to labor, management and land:		556.43

Plan C.

First crop:	Rice, intermediate technology:	566.37
Second crop:	None (see above)	
Returns to labor, management and land:		<u>566.37</u>

Plan D.

First crop:	Corn, intermediate technology:	243.22
Second crop:	Sesame, intermediate technology:	<u>176.97</u>
Returns to labor, management and land:		420.19

Plan E.

First crop:	Sorghum, intermediate technology:	176.10
Second crop:	Beans, traditional technology:	<u>311.28</u>
Returns to labor, management and land:		487.38

About 60% of rural families have an annual income of less than 500 Lempiras per year, with an annual average income of 286 Lempiras per year. ^{1/}

DATA SOURCE

Estimate of crop profitability, comparing two different sources of information

Crops	From ASA Survey					Ministry of Natural Resources ^b				Returns ^c
	Gross Income L./Ha.	Total Cost L./Ha.	Net Income L./Ha.	B/C Ratio	Returns ^a L./Ha.	Gross Income L./Ha.	Total Cost L./Ha.	Net Income L./Ha.	B/C Ratio	
<u>First Crop Corn</u>										
Traditional t.	154.00	242.55	-88.55	0.63	89.45					
Intermediate t.	398.86	259.64	33.22	1.33	243.22		323.50			
High t.	502.04	375.18	122.86	1.32	195.62					
<u>Second Crop Corn</u>										
Traditional t.	138.60	232.31	-93.71	0.60	84.30					
Intermediate t.	374.22	296.74	77.48	1.26	224.84					
<u>Rice</u>										
Traditional t.	548.12	318.55	229.56	1.72	429.56					
Intermediate t.	858.00	400.91	397.09	1.96	566.37		433.00			
High t.	1,287.00	653.50	633.50	1.97	741.30					
<u>First Crop Beans</u>										
Traditional t.	330.00	209.34	120.66	1.57	246.02					
Intermediate t.	396.00	260.82	135.18	1.52	250.62					
<u>Second Crop Beans</u>										
Traditional t.	320.00	193.20	127.50	2.0	311.28					
Intermediate t.	462.00	260.40	201.60	1.77	313.21		233.60			
<u>Beans-Corn</u>										
Traditional t.	620.84	382.22	338.62	2.2	521.42					
Intermediate t.	511.50	310.99	195.61	1.62	365.19					
<u>Sesame</u>										
Intermediate t.	274.56	152.53	122.03	1.80	176.97					
<u>Sorghum</u>										
Intermediate t.	378.84	223.84	155.50	1.70	176.10		202.50			
High t.	477.84	329.62	148.22	1.45	173.14					

a - Includes returns to labor, management and land.

b - No information was available for yields and returns.

TABLE P-1

CORN 1st PLANTING

COSTS OF PRODUCTION AND PROFITABILITY FOR SMALL FARMERS PRODUCTION AND SETTLEMENTS

Resource	Traditional technology			Intermediate		
	Quantity	Unit Price (Lps.)	Cost (Lps.)	Quantity	Unit Price (Lps.)	Cost (Lps.)
Improved Seed	=	=	=	11.00 Kg.	0.60	6.60
Unimproved Seed	15.6 Kg.	0.23	3.53	8.00 Kg.	0.23	1.84
Fertilizers	=	=	=	99.43 Kg.	0.53	52.70
Other chemical inputs ^{1/}	=	=	=	=	=	3.13
Other Costs ^{2/}	=	=	13.87	=	=	35.90
Tractor Hours	0.87	11.2	9.74	1.00	11.2	11.20
Oxen-Team-Days	5.16 TD	5.0	25.80	6.00 TD	5.0	30.00
Labor	89.00 MD	2.00	178.00	72.00 MD	2.00	144.00
Sub Total	=	=	231.00	=	=	235.37
Interest at 10% annual rate	=	=	11.99	=	=	14.27
Total Cost	=	=	242.99	=	=	249.64
Value of Production	22.0 qq.	7.0	154.0	56.98 qq	7.0	398.86
Net Income	=	=	(-)88.99	=	=	99.22
B/C Ratio	=	=	0.63	=	=	1.33
Returns to Labor, land and Management (L.)	=	=	89.45	=	=	243.22

^{1/} Costs on insecticides, fungicides and herbicides.

^{2/} Costs on bags, transportation and warehouse.

Source: Agricultural Sector Analysis Project

NOTE: Table based on one hectare unit. The National Development Bank raised the guaranteed purchase of basic grains. Prices for September, 1974 harvest at rural buying stations are: Corn, L3.00; Red Beans, L20.00; Black Beans, L 18.00; Un-milled Rice, L14.75. Prices are approximately one Lempira higher in Tegucigalpa and San Pedro Sula.

TABLE P-2

CORN 1st PLANTINGCOSTS OF PRODUCTION AND PROFITABILITY FOR SMALL FARMERS PRODUCTION AND SETTLEMENTS

Mechanized

Resource	Quantity	Unit Price (Lps.)	Cost Lps/Ha.
Improved Seed	10.00 Kg.	9.00 ^{3/}	13.78
Unimproved Seed	-	-	-
Fertilizers	150.10 kg.	0.53	82.73
Other chemical inputs ^{1/}			30.13
Other costs ^{2/}			45.59
Tractor Hours	9.41	11.2	105.39
Oxen team-days	2.15 TD	5.0	10.75
Labor	36.38 MD	2.00	72.76
Sub Total	-	-	361.12
Interest at 10% annual rate	-	-	18.06
Total Cost	-	-	379.18
Value of Production	71.72 qq	7.0	502.04
Net Income	-	-	122.86
B/C Ratio			1.32
Returns to Labor, Land and Management (L.)			195.62

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^{1/} Costs on insecticides, fungicides and herbicides

^{2/} Costs on bags, transportation and warehouse.

^{3/} Average cost of varieties used at this level of technology (more expensive).

Source: Agricultural Sector Analysis Project

NOTE: Table based on one hectare unit. The National Development Bank raised the guaranteed purchase of basic grains. Prices for September, 1974 harvest at rural buying stations are: Corn, L8.00; Red Beans, L20.00; Black Beans, L 13.00; Un-milled Rice, L 14.75. Prices are approximately one Lempira higher in Tegucigalpa and San Pedro Sula.

CORN 2nd PLANTING

COSTS OF PRODUCTION AND PROFITABILITY FOR SMALL FARMERS PRODUCTION AND SETTLEMENT

L.250

RESOURCE	Traditional technology			Intermediate		
	Quantity	Unit Price (Lps.)	Cost (Lps.)	Quantity	Unit Price (Lps.)	Cost (Lps.)
Improved Seed	=	=	=	16.00 Kg.	0.60	9.60
Unimproved Seed	19.28 Kg.	0.23	3.05	=	=	=
Fertilizers	=	=	=	=	=	49.77
Other chemical inputs <u>1/</u>	=	=	=	=	=	6.00
Other costs <u>2/</u>	=	=	12.57	=	=	33.68
Tractor Hours	0.87 H.F.	11.2	9.74	1.00	11.2	11.20
Oxen Team-days	3.68 TD	5.0	18.00	5.00 TD	5.00	25.00
Labor	89.00 MD	2.00	178.00	73.68 MD.	2.00	147.36
Sub Total	=	=	221.26	=	=	282.61
Interest at 10% annual rate	=	=	11.00	=	=	14.13
Total Cost	=	=	232.26	=	=	296.74
Value of production	19.00 qq.	7.0	133.00	53.46 qq	7.0	374.22
Net Income	=	=	(-) 99.26	=	=	77.48
B/C Ratio	=	=	(-) 0.60	=	=	1.26
Return to Labor, land and Management (L.)	=	=	34.22	=	=	224.64

1/ Costs on insecticides, fungicides and herbicides.

2/ Costs on bags, transportation and warehouse.

Source: Agricultural Sector Analysis Project

NOTE: Table based on one hectare unit. The National Development Bank raised the guaranteed purchase of basic grains. Prices for September, 1974 harvest at rural buying stations are: Corn, L 18.00; Red Beans, L 20.00; Black Beans, L 18.00; Un-milled Rice, L14.75. Prices are approximately one Lempira higher in Tegucigalpa and San Pedro Sula.

TABLE P-4

RICE FARMING

COSTS OF PRODUCTION AND PROFITABILITY FOR SMALL FARMERS PRODUCTION AND OFFERS

Traditional Technology

Modernization

L. 400

Resource	Quantity	Unit Price (Lps.)	Cost (Lps.)	Quantity	Unit Price (Lps.)	Cost (Lps.)
Improved Seed	=	=	=	=	=	=
Unimproved Seed	44.80 qq.	0.22	10.00	41.70 qq.	0.20	8.34
Fertilizers	=	=	=	=	=	=
Other chemical inputs ^{1/}	=	=	0.98	=	=	0.98
Other Costs ^{2/}	=	=	60.00	=	=	60.00
Tractor Hours	1.00 hr	11.00	11.00	0.70 hr	11.00	7.70
Oxen team-Days	0.10 TD	0.00	0.00	0.10 TD	0.00	0.00
Labor	100.00 hr	2.00	200.00	97.00 hr	2.00	194.00
Sub Total	=	=	319.98	=	=	271.02
Interest at 10% annual rate	=	=	31.99	=	=	27.10
Total Cost	=	=	351.97	=	=	298.12
Value of Production	55.00 qq.	15.60	858.00	55 qq.	15.60	858.00
Net Income	=	=	506.03	=	=	559.88
B/C Ratio (3)	=	=	1.72	=	=	1.86
Returns to Labor, land and Management (L.)	=	=	429.56	=	=	566.27

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^{1/} Costs on insecticides, fungicides and herbicides.

^{2/} Costs on bags, transportation and warehouse. (1.0/qq)

Source: Agricultural Sector Analysis Project

NOTE: Table based on one hectare unit. The National Development Bank raised the guaranteed purchase of basic grains. Prices for September, 1974 harvest at rural buying stations are: Corn, L 8.00; Red Beans, 120.00; Black Beans, L 18.00; Un-milled Rice, 110.00. Prices are approximately one Lempira higher in Tegucigalpa and San Pedro Sula.

RICE PLANTING

COSTS OF PRODUCTION AND PROFITABILITY FOR SMALL FARMERS PRODUCTION AND SETTLEMENTS

Mechanized (S) L 600.00			
Resource	Quantity	Unit Price (Lps.)	Cost Lps/Ha.
Improved Seed	55.00 Kg.	0.53	29.15
Unimproved Seed	"	"	"
Fertilizers	200.0 Kg.	0.52	104.00
Other chemical inputs <u>1/</u>	"	"	103.89
Other Costs <u>2/</u>	"	"	150.75
Tractor Hours	8.0 H.H.	11.2	89.60
Oxen Team-Days	"	"	"
Labor	53.00 HC	2.00	106.00
Sub Total	"	"	622.39
Interest at 10% annual rate	"	"	31.12
Total Cost	"	"	653.51
Value of Production	50.00	25.00	1250.00
Net Income	"	"	596.49
B/C Ratio	"	"	1.97
Returns to labor, Land and Management	"	"	596.49

1/ Costs on insecticides, fungicides and herbicides

2/ Costs on bags, transportation and warehouse

Source: Agricultural Sector Analysis Project

NOTE: Table based on one hectare unit. The National Development bank raised the guaranteed purchase of basic grains. Prices for September, 1974 harvest at rural buying stations were: Corn, 15.00; Red beans, 120.00; Black beans, L 18.00; Unmilled Rice, L 24.75. Prices are approximately one Lempira higher in Tegucigalpa and San Pedro Sula.

TABLE 2

Costs of Production and Profitability

COSTS OF PRODUCTION AND PROFITABILITY FOR SMALL FARMERS PRODUCTION AND SETTLEMENTS

Resource	Traditional Technology			Intermediate		
	Quantity	Unit Price (Lps.)	Cost Lps./Ha.	Quantity	Unit Price (Lps.)	Cost (Lps./Ha.)
Improved Seed	-	-	-	28.61 Kg.	0.62	17.74
Unimproved Seed	100.00	0.00	0.00	-	-	-
Fertilizers	-	-	-	110.00 Kg.	0.53	60.31
Other chemical inputs 1/	-	-	-	-	-	-
Other Costs 2/	-	-	21.00	-	-	21.12
Tractor Hours	-	-	-	0.72 T.H.	11.2	8.06
Oxen team-days	7.14 TD	3.8	27.13	0.12 TD	0.0	25.60
Labor	67.00 MD	1.75	117.25	57.67 MD	2.0	115.34
Sub Total	-	-	197.37	-	-	248.17
Interest at 10% annual rate	-	-	9.97	-	-	12.41
Total Cost	-	-	207.34	-	-	260.58
Value of production	100.0	10.0	1000.0	20.4	10.0	204.0
Net Income	-	-	792.66	-	-	135.42
B/C Ratio	-	-	4.83	-	-	1.52
Returns to Labor, Land and Management (L.)	-	-	240.02	-	-	250.76

1/ Costs on insecticides, fungicides and herbicides

2/ Costs on bags, transportation and warehouse

Source: Agricultural Sector Analysis Project

NOTE: Table based on one hectare unit. The National Development Bank raised the guaranteed purchase of basic grains. Prices for September, 1974 (except at rural buying stations are: Corn, 10.00; Red beans, 12.00; black beans, 14.00; lentils, 16.00. Prices are approximately one-fifth higher in Tegucigalpa and San Pedro Sula.

TABLE P-7

BEANS 2nd PLANTING

COSTS OF PRODUCTION AND PROFITABILITY FOR SMALL FARMERS PRODUCTION AND SETTLEMENTS

Resource	Traditional technology			Intermediate		
	Quantity	Unit Price	Cost Lps/Ha.	Quantity	Unit Price	Cost (Lps/Ha.)
Improved Seed	-	-	-	-	-	-
Unimproved Seed	34.65 Kg.	0.55	19.05	34.55	0.55	19.00
Fertilizers	-	-	-	105.47	0.53	55.90
Other chemical inputs ^{1/}	-	-	-	-	-	-
Other Costs ^{2/}	-	-	21.13	-	-	24.64
Tractor Hours	-	-	-	1.17	11.2	13.10
Oxen team-Days	7.02 TD	5.0	35.10	4.75 TD	5.0	23.75
Labor	56.74 MD	2.0	113.48	55.80 MD	2.00	111.61
Sub Total	-	-	188.76	-	-	248.00
Interest at 10% annual rate	-	-	9.44	-	-	12.40
Total Cost	-	-	198.20	-	-	260.40
Value of production	26.40 qq	15.0	396.0	30.80 qq	15.0	462.0
Net Income	-	-	197.80	-	-	201.6
B/C Ratio	-	-	2.0	-	-	1.77
Returns to Labor, land and Management (L.)	-	-	311.28	-	-	313.21

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^{1/} Costs on insecticides, fungicides and herbicides

^{2/} Costs on bags transportation and warehouse

Source: Agricultural Sector Analysis Project

NOTE: Table based on one hectare unit. The National Development Bank raised the guaranteed purchase of basic grains. Prices for September, 1974 harvest at rural buying stations are: Corn, L8.00; Red Beans, L 20.00; Black Beans, L18.00; Un-milled Rice, L14.75. Prices are approximately one Lempira higher in Tegucigalpa and San Pedro S.A.

TABLE P-8
CORN AND BEANS PLANTING (Combined)

COSTS OF PRODUCTION AND PROFITABILITY FOR SMALL FARMERS PRODUCTION AND SETTLEMENTS

Resource	Traditional Technology (S) L.260			Intermediate		
	Quantity	Unit Price	Cost (Lps/Ha.)	Quantity	Unit Price	Cost (Lps/Ha.)
Improved Seed				19.56 Kg.	0.51	9.98
Unimproved Seed	36.26 Kg.	0.35	12.70	25.37 Kg.	0.35	8.88
Fertilizers				64.48 Kg.	0.53	34.17
Other chemical inputs <u>1/</u>	-	-	5.43	-	-	9.02
Other costs <u>2/</u>	-	-	37.00	-	-	32.50
Tractor Hours				0.72 T.H.	11.02	8.02
Oxen team-Days	6.17 TD	5.00	30.85	5.74 TD	5.00	28.70
Labor	91.40 MD	2.00	182.80	84.79 MD	2.00	169.58
Sub Total	-	-	268.78	-	-	300.85
Interest at 10% annual rate			13.44			15.04
Total Cost	-	-	282.22	-	-	315.89
Value of production	C35.42	7.0	620.34	C33.00	7.0	511.50
	B24.66	15.0		B16.70	15.0	
Net Income			338.62			195.61
B/C Ratio			2.2			1.62
Returns to Labor, land and Management (L.)			521.42			365.19

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1/ costs on insecticides, fungicides and herbicides

2/ Costs on bags, transportation and warehouse

Source: Agricultural Sector Analysis Project

NOTE: Table based on one hectare unit. The National Development Bank raised the guaranteed purchase of basic grains. Prices for September, 1974 harvest at rural buying stations are: Corn, L5.00; Red Beans, L 20.00; Black Beans, L18.00; Un-milled Rice, L14.75. Prices are approximately one Lempira higher in Tegucigalpa and San Pedro Sula.

TABLE P-9

SESAME PLANTING

COSTS OF PRODUCTION AND PROFITABILITY FOR SMALL FARMERS PRODUCTION AND SETTLEMENT

Intermediate (S) L 150.

Source	Quantity	Unit Price	Cost Lps/Ha.
Improved Seed	10.0 Kg.	0.60	6.0
Unimproved Seed	-	-	-
Fertilizers	65.00 Kg.	0.53	34.45
Other chemical inputs <u>1/</u>	-	-	36.86
Other costs <u>2/</u>	-	-	-
Tractor Hours	0.27 T.H.	11.2	3.02
Oxen team-days	2.0 TD	5.0	10.0
Labor	27.47 md	2.0	54.94
Sub Total			145.27
Interest at 10% annual rate			7.26
Total Cost			152.53
Value of Production	17.16 qq.	16.00	274.56
Net Income			122.03
B/C Ratio (%)			1.80
Returns to Labor, land and Management (L.)			176.97

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1/ Costs on insecticides, fungicides and herbicides

2/ Costs on bags, transportation and warehouse

Source: Agricultural Sector Analysis Project

NOTE: Table based on one hectare unit. The National Development Bank raised the guaranteed purchase of basic grains. Prices for September, 1974 harvest at rural buying stations are: Corn, L8.00; Red Beans, L 20.00; Black Beans, L18.00; Un-milled Rice, L14.75. Prices are approximately one Lempira higher in Tegucigalpa and San Pedro Sula.

TABLE P-10

SORGHUM PLANTING

COSTS OF PRODUCTION AND PROFITABILITY FOR SMALL FARMERS PRODUCTION AND SETTLEMENTS

Resource	Intermediate (S) L .210			Mechanized		
	Quantity	Unit Price	Cost (Lps/Ha.)	Quantity	Unit Price	Cost (Lps/Ha.)
Improved Seed	11.71 Kg.	1.32	15.46	13.00	1.32	17.16
Unimproved Seed	-	-	-	-	-	-
Fertilizers	-	-	-	-	-	-
Other chemical inputs <u>1/</u>	-	-	-	-	-	65.98
Other Costs <u>2/</u>	-	-	98.38	-	-	107.28
Tractor Hours	7.88 T.H.	11.2	88.26	9.07 T.H.	11.20	101.56
Oxen team-Days	-	-	-	-	-	-
Labor	10.3 MD	2.00	20.6	10.96 M.D.	2.00	21.92
Sub Total	-	-	217.70	-	-	313.92
Interest at 10% annual rate	-	-	10.64	-	-	15.70
Total Cost	-	-	228.34	-	-	329.62
Value of production	63.14 qq	6.00	378.84	79.64	6.00	477.84
Net Income	-	-	150.50	-	-	148.22
B/C Ratio	-	-	1.70	-	-	1.45
Returns to Labor, land and Management (L.)	-	-	176.10	-	-	170.14

1/ Costs on insecticides, fungicides and herbicides

2/ Costs on bags, transportation and warehouse

Source: Agricultural Sector Analysis Project (N.C.E.P.)

NOTE: Table based on one hectare unit. The National Development Bank raised the guaranteed purchase of basic grains. Prices for September, 1974 harvest at rural buying stations are: Corn, L3.00; Red Beans, L 20.00; Black Beans, L18.00; Un-milled Rice, L14.75. Prices are approximately one Lempira higher in Tegucigalpa and San Pedro Sula.

2. Aggregate Market Analysis

GOH efforts to stimulate agricultural production among small farmers would be fruitless in the absence of markets in which to sell additional output. If a farmer is to be encouraged to finance the purchase of \$100 to \$500 in the form of off-the-farm inputs to increase his output, he must be able to sell enough of his production over what he consumes himself - to generate \$100 to \$500 to repay his debts. (Even more must be sold if he is to capitalize his farm operation - purchase the land he might be renting, build houses, fences, irrigation systems, etc.). If the target population contains some 120,000 small farmers, this means from \$120 to \$600 million in agricultural food products must flow into the market system.

Whether the domestic market system has the capacity to handle this volume of output and whether Honduran consumers have the effective purchasing power to absorb increased production without serious reduction in prices comprises one set of questions. Another set of questions concerns accessibility to foreign markets to which agricultural surpluses can be exported at prices fair enough to assure producers they can cover their costs. These market-systems, domestic-demand and export potential questions have been addressed in the agriculture sector analysis, sector assessment, and GOH sector development plan efforts undertaken over the last two years. The findings, which generally were found to be promising, are summarized herein.

Capacity of the Market System

As reported in the agriculture sector assessment, several changes have occurred in the structure of Honduran grain markets over the last several years which combine to give Honduras a greater capacity to handle food products on their way from producer to (domestic or foreign) consumer. Past heavy investment in infrastructure development has given Honduras a road network connecting major production and urban (and export) centers. This road network in 1974 has pulled together into one national market what a decade ago were dozens of small autonomous economic regions. Current GOH programs to build access roads partly financed by this loan will further bring national markets up to the farm gate of many presently remote and marginal small producers.

The conflict with El Salvador has even had an indirect benefit for the Honduran transportation system. No longer able to rely on

Salvadorean truckers to move its produce, Honduras has responded by building its own transport industry. In 1973 there were twice as many Honduran trucks on the road as there were before the conflict only five years earlier. Should a political settlement be reached and trade resumed between the two countries, it is unlikely that Honduran producers will again be at the mercy of foreign truckers.

National capabilities to process and handle food stuffs have also expanded greatly in the last five years. With AID financing, grain storage capacity has increased 250 per cent from 12,000 metric tons before 1970 to over 40,000 metric tons in 1974. Two large 12,000 M. T. silo complexes were built with AID loan funds in Tegucigalpa and San Pedro Sula. In addition to these new facilities, the National Development Bank operates rural grain buying and handling facilities (between 300 M. T. and 750 M.T. capacity each) in sixteen production zones.

This grain storage network, which has fairly wide geographic coverage, can now handle roughly one-third of the grains entering domestic market channels. Utilization of some facilities is still low as operators must still be trained and grain marketing policy revised to meet current conditions; nevertheless, by 1978 as a result of anticipated expanded agricultural output, these facilities will still have the capacity to handle about 70 per cent of marketed grain, a percentage considered by the FAO to be necessary for effective grain price stabilization. To assist in greater utilization of the facilities, AID has also provided partial financing to the GOH of the operating capital to various grain marketing and price stabilization programs.

Diversified crop production, a promising source of new jobs and higher incomes, also has more favorable market perspectives today. Attracted by higher per capita incomes in Honduras, and food shortages abroad, foreign food processing industries are locating in Honduras. Infrastructural investments in electric power generation are also paying off for the country by offering low-cost energy sources to potential food processors. Some 17 municipal market projects, planned for financing under an AID loan to BANMA, will also serve to bring producers and consumers together in more effective marketing conditions in a number of small rural communities.

Combined, these physical and very tangible changes in agricultural market structures give Honduras an ample capacity to handle

the injection of additional food commodities forthcoming from any major agricultural development effort. The fact that current marketing facilities are quite broadly distributed throughout most regions of the country -and are particularly developed where AID production resources will be focussed - promises that larger numbers of the small farmer target population will have access to markets for their output.

Domestic Consumer Demand

As elsewhere in Latin America, the continued growth of the Honduran population has put pressures on domestic food supplies. Modest increases in per capita incomes and the relatively higher growth rates of urban centers have generated demand for a greater variety, better quality and increased quantity of food stuffs. Food processing industries demand large amounts and uniform quality of produce supplied on dependable schedules.

The most comprehensive analysis of past trends and future projections of the domestic demand and supply situation for basic agricultural commodities in Honduras is the "National Agricultural Development Plan 1974-1978 (Volume II)" recently released by the Honduran Economic Planning Council (CSPE). The CSPE examined trends in agricultural commodity production increases during the decade of the 1960's and related these to the growth of domestic demand. Total domestic demand was subtracted from total national production to calculate the country's (surplus or deficit) food balance for each commodity. The food balances, based on a continuation of past trends, were projected to 1978 to determine the country's agricultural commodity situation if no major agricultural development effort like that proposed by the Plan is undertaken.

The CSPE agricultural commodity trends and projections reveal a noticeable deterioration in Honduras' food balance. Already in 1974 the Honduran corn balance has dropped from a net surplus to a net deficit position. Only two more years remain during which the country can expect to be a net bean exporter. The projections also reveal that short-falls in sugar, sorghum and dairy products will become more frequent as output barely keeps up with demand; and they predict growing deficits in rice and vegetables.

From the perspective of foreign trade, while corn, beans, sorghum and sugar earned the country between \$5 and \$6 million in foreign exchange annually before 1970-72, domestic demand for these products will require between \$3 and \$4 million annually in

foreign exchange earnings after 1978 to meet the projected short falls in domestic production. This estimate is conservative because it fails to take into account recent 1973-74 increases in world market prices for these commodities or improvements in Honduran diets. Increased exchange revenues from expanded banana, cotton, beef and coffee sales may be able to cover the costs of imported food commodities but it still means the diversion of development resources to feed the country's population.

A major agriculture development effort, the CSPE shows, could contribute significantly to improving the Honduran food balance. Except in rice where production is risky because of irregular rainfall and limited irrigated land, Honduras has the potential to produce grain surpluses by an ample margin. Dairy products and other sources of protein which currently make up only a small share of Honduran diets likewise have great production potential, particularly in regions where pastures are more suitable than grain crop cultivation.

Domestic demand, then, is not a constraint on Honduran agriculture. On the contrary, the challenge will be that of feeding the Honduran population at reasonable prices without requiring recourse to prohibitively expensive imports. If at the same time the goal of improved nutrition of the Honduran population is to be met, a still greater effort will be needed to keep production up and prices reasonable so that ample food is obtainable by the low-income consumer.

Foreign Trade and the Central Market

The Honduran National Development Plan calls not only for increasing production of basic grains (corn, beans and sorghum) to satisfy domestic demand at higher nutrition levels and lower prices, but also calls for generating considerable surpluses as a source of foreign exchange. The AID assessment has demonstrated that there exist the natural resources, manpower and technology to produce exportable surpluses. Moreover, AID feels it is in the best interests of Honduras to encourage production of basic grains for export as this would strengthen the country's trade position with its Central American neighbors -- Guatemala, El Salvador, Nicaragua and Costa Rica being its traditional grain buyers -- and contribute to a reintegration of the Central American Common Market (CACM).

Periodic food grain shortages will be a fact of life in CACM countries for some years into the future. Although its CACM neighbors have also launched ambitious agricultural development programs with strong emphasis on basic grains production, Honduras is generally in a better long-run position to produce exportable surpluses and a better short-run position to avoid production declines from adverse weather conditions because of its natural resource endowments.

Regional food balance projections by the CACM Secretariat (SIECA) and the FAO regional advisory group (CAFICA) show Honduras as the only country in the region capable of sustaining production of exportable bean surpluses. Honduras, with Guatemala, has the potential to sustain corn and sorghum surpluses (Nicaragua and El Salvador promise to be the region's main surplus rice producers and sellers if they can bring domestic production costs down to competitive levels without reducing output). Honduras has the added advantage of being able to produce, at present, exportable grain surpluses at prices lower than any of its neighbors. Whether Honduras can retain this comparative cost advantage will depend on how quickly it can get new production technologies developed and delivered to its basic grain producers.

In recent years lagging domestic production has cost Honduras some of its traditional CACM markets. In 1973 Honduras stopped the export of beans to keep down domestic prices; the move left Costa Rica without its traditional source of supply, forced it to look elsewhere and probably discouraged it from depending on Honduras in the future. If Honduras is to be a CACM grain supplier it must have an agricultural base that can assure its CACM clients of regular and dependable supplies.

In summary, an external regional market exists for any grain surpluses Honduras can realistically produce. Honduras can provide a valuable service to its CACM neighbors as a low-cost basic grain supplier and benefit in return from the resulting increase in regional trade. Participation in these benefits, however, will depend on a strong agricultural sector responsive to domestic and regional market incentives.

C. Institutional Analysis

1. Public Agriculture Sector Coordination

The successful implementation of the sector program will require, in the first instance, greater efficiency within the four key GOH institutions: Ministry of Natural Resources, National Development Bank, National Agrarian Institute and National Planning Council. Since late 1972 the Mission has been collaborating with the GOH in this institution building task through grant assistance. Major results of this effort have included substantial reorganization of the Ministry, creation of an Agricultural Sector Analysis group, and training in-country and abroad of large numbers of professionals.

Also required, however, is a higher degree of specialization and coordination among the sector institutions and effective linkages between them and private institutions who will either be substantial beneficiaries or contributors to the sector program. Here the GOH has made considerable progress. Recognizing that forward movement of a changing, dynamic agriculture sector requires institutions which can adapt and respond to changing priorities, needs and demands, and programs, the GOH has included in its 5-year Development Plan measures for restructuring of the principal public agencies serving the sector. It also created in 1973 the Agriculture Sector Coordinating Committee (COCO), at the ministerial, policy decision and budget allocation level, and now has in motion actions to create COQUITOS, with broader representation, at the field level where projects and action programs are implemented. Figure 1 depicts how this two-level coordination will work. At the COCO level broad areas of responsibility are agreed on, general sectoral policies are developed, and the allocation of institutional resources (financial and human) are determined to implement the sector program. At the COQUITO level the regional offices of the key action agencies perform their specialized functions within the policy guidelines set by the COCO.

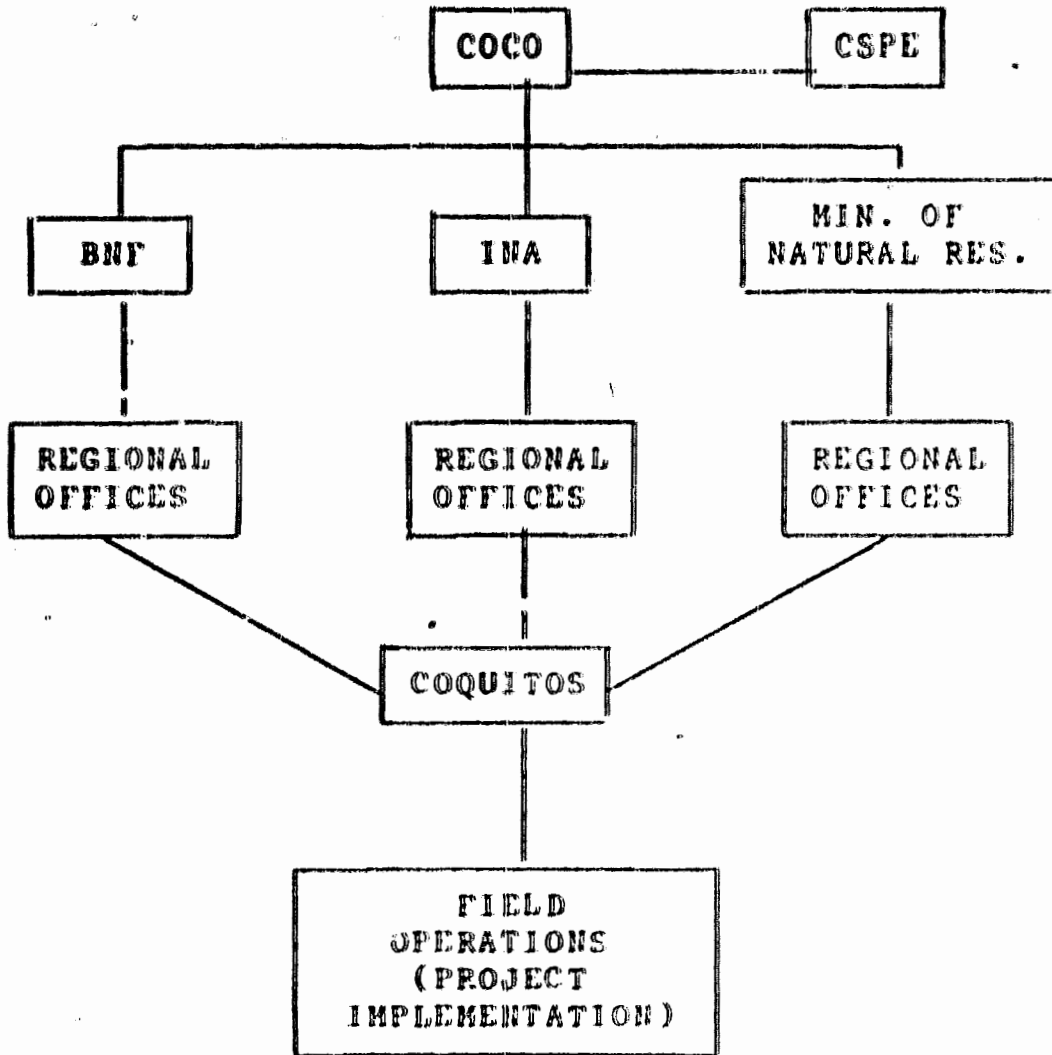
The Mission recognizes the severe management constraints involved in implementing any GOH program, and particularly one as complex as the sector program. For this reason grant funded technical assistance through an expanded CORE Services PROP is contemplated to support loan activities. This assistance in planning, management and evaluation is described in detail in Section II, B.3.

This section examines the principal GOH agencies, and a number of private institutions, which will be involved in the execution of the agriculture portion of the Development Plan and the loan program

proposed herein. It attempts to assess their institutional capability and their potential for contributing effectively to the sector program in a coordinated effort.

FIGURE I

COORDINATION OF AGRICULTURAL PUBLIC SERVICES



2. The National Development Bank (BNF)

The BNF was established in 1950 with the basic objective of contributing to economic and social development by channelling resources into agricultural and industrial activities. Its major functions are to:

- a) Grant short, medium and long term loans to agriculture and industry.
- b) Regulate prices of basic grains by buying, storing and selling (including exclusive exporting).
- c) Import, export, buy and sell agricultural inputs.
- d) Promote and establish businesses related to agricultural development.
- e) Carry out production development programs.
- f) Carry out all normal banking operations.

The BNF is the major credit source for agricultural activities. In 1972, it accounted for 54.3 per cent of total loans outstanding to the agricultural sector including 72.9 per cent of total loans outstanding for basic grains.

In the case of new loans to the sector, the BNF accounted for 28.8 per cent in 1972 including 49.9 per cent in the case of basic grains.

The Bank carries out credit operations through 22 branches and agencies in addition to its central offices in Tegucigalpa. It also has 17 sales agencies located at strategic points throughout the country for the sale of agricultural inputs. Buying and storage centers for basic grains are located at 16 points throughout the country, and terminal storage facilities are located in Tegucigalpa and San Pedro Sula.

In 1973, the Credit and Operations Department and the Development Department of the Bank had a total staff of 745, of which 238 are executive, professional and technical staff, 158 are administrative, and 349 are service staff.

The Accounting Division maintains separate records for the Credit and Operations Department and the Development De-

partment. Staffing appears adequate for expansion of BNF credit operations, especially in view of anticipated improved coordination with other institutions, and the implementation of the National Development Plan strategy of providing credit through group organizations and technical assistance through DESAGRO. As the Bank expands its loan portfolio to groups and reduces relative emphasis on individual small farmer loans, personnel requirements per loan will drop considerably. In 1973, the BNF made approximately 14,000 loans, of which nearly 12,000 were for less than 2,500 Lempiras (\$1,250). Its administration costs on the small loans were an estimated 27% of the amount of the loans, while in the case of 155 cooperative loans and 160 asentamiento loans, the administration costs were estimated at 0.26% and 4%, respectively.

The agricultural portfolio of the BNF has a relatively high amount of loan payments in arrears. As of December 31, 1971, some 29 per cent of all crop loans were in arrears. Of these, cotton loans were 28.7% in arrears, tobacco 52.6%, coffee 28.6% and other crops (including basic grains) 22.7%. In 1972 and 1973 the BNF created several study groups to investigate major problem areas. The results of these study groups led to measures to reduce the portfolio arrears situation. Among other measures, the BNF has increased the staff in its loan analysis section, appraisals and inspections section, and collections section. It is in the process of improving the classification of its portfolio for purposes of establishing adequate reserves and writing off uncollectibles. It has undertaken a plan of writing off a total of some 64.5 million of uncollectibles by 1976.

There are several areas of improvement upon which the BNF must concentrate. A clear definition of the problem areas and possible solutions should emerge from an IMF financed study by the Mexico City Office of Peat, Marwick and Mitchell. The study is due for release in July and needed reforms will follow. At the same time, the Bank is actively carrying out programs of improvement in areas of obvious need, such as debt collection.

Loan policies and criteria and operational procedures are satisfactory and in line with generally accepted standards. It is considered that the technical and administrative staff has experience and capacity to execute the loan programs proposed. Nevertheless, additional assistance will be required in improving efficiency as specified in the activities proposed which include provision for additional staff at the

cooperatives window and two man years of technical assistance. The Planning Section of the Bank, located in the Credit and Operations Department, will work closely with the Office of Sectoral Planning to be established as the technical arm of the Agriculture Sector Coordinating Committee (COCO).

3. The National Agrarian Instituto (INA)

INA is the GOH institution in the agricultural sector responsible for carrying out programs related to campesino development, including agrarian reform and colonization activities. INA specifically carries out the following activities:

1. Execution of Decree Law No. 8, which involves settlement of campesino groups on public lands and certain private lands that, under the Decree, are under forced rental agreements until a new agrarian reform law is enacted.

2. Carry out land development and colonization activities. Major projects still active are: a) Proyecto del Bajo Aguán (right and left banks); and b) Las Guanchías.

3. Carry out cadaster work and land title review, including administration of public lands.

4. Provide technical services to colonizers and other qualifying for INA assistance. These technical services cover the following areas:

- a) Agricultural Extension
- b) Forestry Development
- c) Agricultural Mechanization

The National Plan and current GOH policy stipulate that INA will rely on other key sector institutions for the provision of these services leaving to INA the promotion and organization of campesino groups.

5. Carry out training and social development activities for campesinos. This includes activities involving technical training as well as community development and promotion of cooperative organization.

6. Carry out activities related to provision of agricultural credit to colonizers and asentamientos, usually with the BNF administering the credit funds.

The annual budget for INA has been fairly constant from 1971 (at \$5,976,000) to 1974 (at \$6,328,000). About 50% of this budget covers current operating costs and the rest is investment budget. For 1974, approximately \$5.4 million of the total budget is for project execution, as follows (in U.S. \$):

	Expenses		Source of Funds	
	Current	Investment	Internal	External
1. Application of Decree No.8 (asentamientos)	435,531	1,065	436,596	-
2. Technical & Social assistance	356,129	40,478	396,607	
3. Campesino Training	207,060	73,354	280,414	
4. Right margin Aguán River Colonization	1,148,614	2,292,774	563,983	2,877,405 (IDB)
5. Left margin Aguán River Colonization	92,150	460,250	180,750	171,650 (IDB)
6. Rural National Cadaster	106,748	10,500	117,248	
7. Demonstration Cadaster	89,470	-	89,470	
8. Land Administration	221,637	1,200	222,837	
9. Construction Supervision/; Engineering	44,542	16,400	60,942	
10. Mechanization (Guanchías)	40,000	-	40,000	
Totals	2,741,971	2,696,020	2,888,936	3,049,055

Total Project Budget: \$ 5,937,991 *

* Does not include special funds going directly to BIF for credit.

INA staffing pattern for 1968 through 1974, and projections through 1978 are follows:

	1968	1969	1970	1971	1972	1973	1974*	1975	1976	1977	1978
Executive staff	2	2	2	2	2	2	2	2	2	2	2
University Technical	48	47	55	66	64	66	82	99	114	131	150
Technicians	36	35	103	154	169	219	175	210	241	278	320
Administrative	66	67	59	88	92	86	142	170	196	225	259
Construction	4	3	10	-	-	-	68	79	91	104	120
Service	20	24	88	83	93	113	80	98	113	130	149
	176	178	317	393	420	486	549	658	757	870	1,000

* Requested in Budget

Since January, 1973, INA has established over 370 asentamientos on more than 10,000 manzanas of land involving more than 15,000 families.^{1/} Its efforts will continue to concentrate on asentamiento establishment as well as consolidation of existing asentamientos and campesino organization development. This and the Aguan Valley project will absorb the majority of the technical personnel. It is estimated that for 1975, INA will have a technical staff capable of providing organizational, social, and development assistance to approximately 580 asentamientos.

INA is considered to possess the necessary capability to carry out its functions in the execution of the pilot asentamiento program, in addition to its other responsibilities, based on the following factors: first and foremost, the high priority assigned by the GOH to agrarian reform, which has injected new enthusiasm into the INA staff; GOH commitment to a coordinated effort in the agriculture sector (the INA Planning Unit will work closely with the Office of Sectoral Planning to be established as the technical arm of the Agriculture Sector Coordinating Committee); the experience already gained in the formation and development of 373 asentamientos (and providing credit through BNF to 70 of these), and the potential wealth of information to be gained from the base-line study and continuing evaluation.

^{1/} A summary of INA operations for 1973, by activity, is shown in Table 1.

TABLE 1

SUMMARY OF INA OPERATIONS BY TYPE OF ACTIVITY, 1973

<u>TYPE OF ACTIVITY</u>	<u>PHYSICAL AMOUNT</u>	<u>MEASUREMENT UNIT</u>	<u>VALUE (US\$)</u>	<u>MEASUREMENT UNIT</u>
. Land rental to private producers*	37,386	Hectares	83,733	Annual rental payment
. Land sales to private producers	19,433	Hectares	702,986	Total sales price
. Negotiated purchases of affected lands	38,470	Hectares	1,405,708	Total purchase price
. INA sponsored cooperatives and pre-cooperatives established (total cumulative to Dec. 31)	56 13 2,517	Cooperatives pre-coops members		
. Application of Decree No. 8 (creation of asentamientos)				
- Applications received	618	Applications		
- Applications approved	325	"		
- Applications rejected	165	"		
- Applications pending	129	"		
- Visual inspections made	961			
- Land affected	51,260	Manzanas		
- Families settled	13,918	Families		
- IMF credit promoted	-	-	1,232,118	Total amount all asentamientos

* Public lands administered by INA. Individual rentals not included under Decree No. 8.

4. The Ministry of Agriculture

The Ministry of Agriculture and Livestock (MINAG) was established in 1952. The official designation was changed to Ministry of Natural Resources some years later. The National Plan, 1974-78, calls for readoption of the original designation; accordingly, we will refer here to the Ministry by its current designation.

I. Revised Administrative Organization

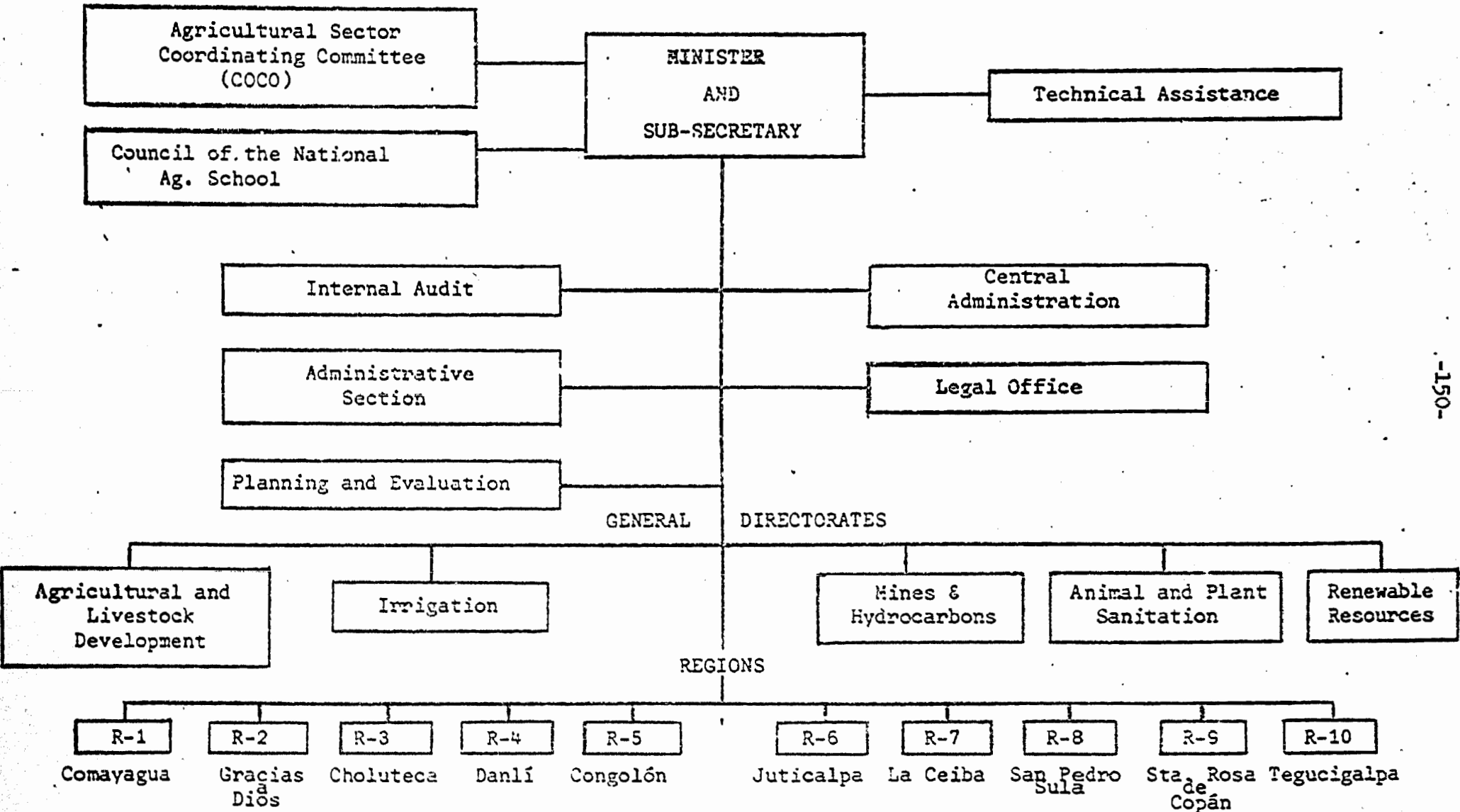
In 1971 the Minister of Natural Resources requested grant technical assistance from AID to reorganize the Ministry into a more efficient and effective institution. With AID funding the GOH contracted an outside firm to undertake the necessary study, recommend organizational changes, and establish the administrative procedures to be followed in implementing the reorganization. The study was completed in late 1972 but because of a change of Ministers and other factors it was not until January 1974 that plans were made to effect the recommended changes. The reorganization scheme concentrated on improved administrative performance through the elimination of duplication of functions among the various General Directorates. A number of independent activities were merged, functional assignments were defined, and lines of authority were identified. In addition, the reorganization placed major emphasis on a regionalization plan and on the creation of an office for planning and evaluation, functions that had previously been largely ignored. With respect to the latter, more recent GOH thinking is that the Ministry Planning and Evaluation Unit would relate closely to the new Office of Sectoral Planning (OPS) to be established as the technical arm of the Agriculture Sector Coordinating Committee (COCO), while the Agriculture Sector Analysis group (ASA) will be incorporated within the OPS. The Minister serves as chairman of the COCO, (composed of the Minister of Natural Resources, the Director of INA, the Executive Secretary of the CSPE and the President of the BNF).

While the reorganization was completed on paper in the first quarter of CY 1974, actual implementation has been slow due to the need for further adjustments in operational budgets of various Ministry units affected. It appears that the reorganization is a positive step which will greatly improve the efficiency and effectiveness of the Ministry.

Table I shows the revised Ministry structure. The five General Directorates are discussed separately below.

TABLE 1

ORGANIZATIONAL DIAGRAM OF THE MINISTRY OF NATURAL RESOURCES



-150-

(Regions 2 and 5, although established by the CSPE, do not justify opening of Regional Offices within the foreseeable future.)

A. General Directorate for Agriculture and Livestock Development (DESAGRO). Of the five General Directorates, DESAGRO is the largest and by far the most service oriented insofar as small farmers are concerned. It is composed of five Departments in addition to the National Agricultural and Forestry Schools located at Catacamas and Siguatepeque, respectively.

1. The National Agriculture and Livestock Center: This Department consists of a national farm of approximately 1,500 hectares. The farm is used primarily for multiplying high quality breeding stock (beef and dairy cattle) for sale to ranchers throughout the country. In addition to livestock activities some crop experimentation is also carried out on the station.

2. The Agricultural Supply Service: This Department consists of three divisions. The Agricultural Mechanization Division provides rental machinery services to farmers and to asentamientos. It is presently undergoing organizational changes to improve effectiveness and efficiency. It recently received a \$1.0 million EXIM Bank loan to increase the number of service units and provide spare parts for farm equipment. The Division of Animal and Plant Reproduction administers the artificial insemination program and the multiplication of improved seeds (basic grains) and treecrops such as citrus, avocados, mangos, ornamentals, and others. The Division of Agricultural Supplies distributes improved seeds and, in some outlying areas, maintains a stock of the more common inputs such as fertilizers and pesticides for sale to farmers.

3. The Department of Agricultural Research: Agricultural research represents a major thrust of DESAGRO. The research staff is composed of 44 professionals, many of whom have the equivalent of BS or MS degrees, plus 16 agronomists. A \$2.8 million IDB loan, delayed for almost two years due to GOH budgetary and administrative problems, includes a grant for three man-years of technical assistance in agricultural research. Major research efforts are directed to improving yields of basic grains (corn, beans, rice, sorghum) and a number of diversified crops such as sesame, potatoes, soybeans, wheat, pastures, tree fruits and vegetables. Crop research efforts are coordinated with the Extension Service, which conducts demonstrational plantings in conjunction with small farmer programs with asentamientos, cooperatives, etc. Eight experimental stations have been established in different locations of the country representing the major ecological zones.

4. The Department of Project Promotion and Execution: This is a relatively small Department consisting of 5 professionals with a modest auxiliary staff. Activities are closely related to both research and extension. The main purpose of the Department is to promote the

cultivation of selected crops in specific areas. For example, in areas where potatoes have shown promise under experimental conditions, interested farmers are encouraged to make commercial plantings under close supervision, thus permitting the collection of data relative to cost of production under commercial conditions. New varieties and/or new cultivation practices for basic crops, such as corn, may also be included as part of the program in specific geographic areas. Present plans call for promoting the following crops over the next two years: corn, beans, rice, sorghum, cashews, wheat, potatoes and soybeans.

5. The Department of Agricultural Extension: This Department is DESAGRO's primary connecting link with small farmers. For more detailed information, see the section on Extension Services.

B. The Directorate General of Irrigation: This Directorate is in charge of all activities related to promotion, planning and execution of projects for utilization of water resources for agricultural purposes. Private irrigation systems are common in the production of bananas and sugar cane, but only two national irrigation systems of any significance, involving approximately 8,000 hectares, are presently functioning. However, feasibility studies are underway for a number of other projects. The Directorate has a staff of approximately 20 professionals plus supporting staff and currently receives technical assistance from FAO.

C. The General Directorate of Mines and Hydrocarbons: The General Directorate of Mines and Hydrocarbons has a staff of 10 professionals. Its primary responsibilities consist of (1) the inspection, registry, control, and supervision of mineral and hydrocarbon exploitation and exploration; and (2) the investigation and assessment of mineral and hydrocarbon deposits. It has completed a mineral inventory of Honduras, and continues to receive technical assistance from the FAO.

D. The General Directorate of Animal and Plant Sanitation: The responsibilities of this Directorate are primarily regulatory, i.e., the prevention of entrance of undesirable pests and diseases. The animal Division is also charged with (1) the control of endemic animal maladies such as brucellosis and tuberculosis and (2) meat inspection, both for export and internal consumption. Diagnostic laboratories are maintained in Tegucigalpa and San Pedro Sula for detecting contagious diseases such as rabies, brucellosis, tuberculosis, etc. and for the analysis of animal feeds. The Plant Division is charged with the prevention of outbreaks of such pests as the Mediterranean Fruit Fly and the Coffee Beetle, in addition to the control of migratory pests such as locusts. This Directorate is staffed with approximately 30 professionals, composed mostly of veterinarians but with some biologists, chemists, micro-biologists, bacteriologists, entomologists, etc. A recently

approved loan from IDB (\$0.8 million) directed towards the elimination of brucellosis and tuberculosis will strengthen this Directorate.

E. The General Directorate of Renewable Resources: This is a newly established Directorate. Primary responsibilities are: (1) the determination of fishing policies to be adopted (both ocean and inland fisheries) and the establishment of control procedures to be applied; (2) the protection and control of wildlife; and (3) the investigation of ecological conditions as related to wildlife population and survival. This Directorate is staffed with only 6 professionals, including a Marine Biologist, and related logistics staff.

II. Regionalization Plan

The Ministry of Natural Resources plans to regionalize most of its services, decentralizing lines of authority and responsibility. See Table 1 for the ten regions planned.

During 1974 Region #8 (San Pedro Sula) will begin operations. A Regional Director has been selected and is presently under training in conjunction with an AID-financed contract with Servicios Técnicos del Caribe. 1975 plans call for opening additional regional offices in Comayagua, Choluteca, and Juticalpa. Others will begin operations in 1976. The guidelines for regionalization including operational methods and procedures will be prepared by June, 1974.

III. Budgetary Allocations

TABLE 2

Budget for Ministry of Natural Resources 1972-74
(\$000)

	1972		1973		1974	
	GOB	External 1/	GOB	External 1/	GOB	External 1/
	7,684		6,195	2,141 2/	12,230	2,436 3/
TOTAL	7,684		8,336		14,666	

1/ Does not include external, non-project grant assistance.

2/ Includes \$750,000 (EXIM), \$169,100 (CABEI), and \$1,202,300 (IDB).

3/ Includes \$281,200 (CABEI), \$1,154,400 (IDB)-(DESAGRO) and \$1,000,000 IDB Loan for Animal Sanitation study.

As shown in Table 2, the budget for the Ministry of Natural Resources, including external resources, has almost doubled since 1972. Although it is evident that a substantial increase (over 1974) will be needed in 1975 if the Ministry is to provide adequate financing for planned projects, the Mission has received no official estimates of needs nor any indications of the level of funds that may be approved.

IV. Salary Levels

The Ministry of Natural Resources, as with most GOH agencies, has had problems recruiting and retaining competent personnel because of low salary levels established by the Civil Service Commission. Early in 1974 the Ministry petitioned the Civil Service Commission to permit recruitment at salary levels above position classifications. This petition was approved and the Ministry has been able to hire new personnel at salary levels more in line with the private sector. The Ministry has also received approval for contracting on a non-permanent basis (contracts up to one year subject to renewal) at salary levels comparable to the private sector. The Ministry has contracted six managers on this basis.

V. Personnel Staffing

The Ministry presently has 371 positions that are classified as professional. These are shown below by major categories:

TABLE 3

Professional Personnel Staffing: Ministry of Natural Resources

<u>Professional Category</u>	<u>Number</u>
1. General Agricultural Technicians	216
2. Economists	21
3. Plant, Animal Technicians	51
4. Legal and Administrative	55
5. Other	28
T O T A L	371

The Ministry also has a total of 301 positions that are classed as auxiliary personnel. Major categories include such specialties as laboratory technicians, auxiliary agronomists, quarantine inspectors,

stream gaugers, canal tenders, draftsmen, shop foremen, etc. Auxiliary staff does not include such positions as clerical, mechanical, janitorial, etc.

A review of the professional positions of the Ministry reveals weaknesses in a number of disciplines, especially in plant sciences (genetics, horticulture, plant pathology, entomology), soil science and soil conservation. There is also a shortage of agricultural engineers and agricultural economists. This Ministry recognizes these weaknesses and has plans to train a number of technicians in these disciplines over the Plan period.

5. The Private Institutions and the Directorate of Cooperative Development

Dirección de Fomento Cooperativo

To the extent its limited budget (under 500,000 Lempiras annually) permits, this GON agency has been doing a creditable job in administering the cooperative law, auditing and inspecting cooperatives, and promoting cooperative development. The agency will, however, require additional budgetary support in order to contribute effectively to the projects involved in the program now proposed. The additional annual funds necessary should be on the order of \$100,000.

Fomento Cooperativo has important capabilities with respect to three projects of the cooperative portion of the program: (1) as a sponsor for the FEEOAGRON cooperatives in their organizational restructuring and in applying to BNF for credit funds; (2) as an essential participant along with INA in the proposed technical assistance project to develop simpler and more effective systems of small farmer cooperative organization; and (3) as a participant in the planning of a cooperative marketing program.

With respect to FEEOAGRON, this federation is now essentially administered by Fomento Cooperativo. Fomento Cooperativo should be in a position to contribute the time of a considerable number of its 12 extensionists, which include agronomists, to the proposed project to restructure FEEOAGRON into a system of zonal small farmer cooperatives and in developing the technical assistance/credit package for them.

Fomento Cooperativo can make a major contribution to the development of simplified organizational forms for small farmer cooperative groups for several reasons. First, it is strongly persuaded of the desirability of zonal cooperatives. It regards the organization of small local cooperatives (whether of the FEEOAGRON, INA, or asentamiento types) as full-fledged legal cooperatives as both inefficient and presenting serious problems in the administration of its programs of inspection and

auditing. Second, it can contribute to the development of new organizational forms with its general experience in the development of cooperatives and administration of the legal requirements of the cooperative law. For example, its participation is very necessary to the design of simplified cooperative accounting systems that will not only serve for internal cooperative administration but will also be consistent with an effective program, through Fomento Cooperativo, of auditing and inspection. Third, it will be in a position to implement the new organizational forms in its restructuring of FECOAGROH.

In the planning of a cooperative marketing program, Fomento Cooperativo will be in a position to contribute the assistance of technicians who have had experience in working with small farmer cooperatives on marketing problems.

National Committee of Cooperative Integration

This Committee was established in 1973 by the Sixth National Congress of Cooperatives of Honduras (representing all cooperative federations and many independent cooperatives) as an interim organization to provide leadership to the cooperative movement pending establishment of a cooperative confederation. It is currently active in developing the plan for the establishment of a cooperative education and research institute and in reviewing the cooperative law of Honduras with a view to proposing revisions to meet current and foreseeable needs. It is contemplated that the Committee will provide advice and assistance in the developing of a cooperative marketing plan and in the organization of a cooperative advisory group to the cooperatives window of BHF. The National Committee as such would not be a borrower of credit funds.

FUNDRESA

FUNDRESA has received loans totalling \$500,000 from commercial banks for various projects, \$100,000 from the Pan American Development Fund, and \$100,000 from CABEI. It is now negotiating with BHF for a \$500,000 loan, which is expected to be granted in the near

future. FUNDHESA has also received a number of grants, including \$523,613 from the Inter American Foundation, for development of regional cooperatives and lesser amounts from other American, Honduran, and European organizations. FUNDHESA has also received an OPIC guarantee. It is understood that both OPIC and IAF are satisfied with FUNDHESA's operations. The related organizations which FUNDHESA sponsors (particularly Acci6n Cultural Popular Hondurena -- ACPH) are of good reputation. ACPH, which will operate the agricultural credit/technical assistance program is best known for its conduct of radio schools and training schools for rural areas. FUNDHESA and its related organizations also have close relations with UNC, the second largest campesino organization, which should facilitate their formation of responsible groups to receive credit/technical assistance services.

FUNDHESA has presented a statement of its credit experience under an OPIC guarantee showing \$824,826 in accumulated loans, of which \$689,169 remain in its portfolio. Of this amount it shows \$53,059 delinquent by more than 90 days and \$3,283 for lesser periods. It estimates that only \$1,385 is of doubtful recuperation. Loans granted other than under OPIC guarantee total \$146,837, of which \$57,221 remains in its portfolio. Of the latter amount, \$21,891 is delinquent, all by more than 90 days, but this entire amount is deemed to be recuperable.

CONACAL

CONACAL is the national agricultural cooperative plan of the largest campesino union in Honduras, the National Association of Honduran Campesinos (ANACH). ANACH is affiliated with the principal labor union of the country (FESITRANH).

CONACAL, in operation since 1967, currently works with 1600 campesinos in 45 groups. CONACAL has a small but capable staff of agronomists and other technicians, largely supported by ANACH and AIFLD. It has a well developed system of organizing and working with groups and receives services from DESAGRO, with which it has excellent relations. It has 1,000,000 Lempiras of

credit from BNF. While there has been considerable delinquency, this has been largely for reasons beyond CONACAL's control (drought and Government eviction of borrowing groups from the land they were occupying). CONACAL is conservatively managed and more interested in improving the quality of its program than in rapid expansion.

FACACH

FACACH, the credit union federation, has assets of 4.1 million Lempiras and net worth of over 800,000 Lempiras. It has achieved financial self-sufficiency only in the sense that the spread between the concessional interest rates it pays on A.I.D. and COLAC loans and rates it obtains on re-lending is more than sufficient to cover its operating deficits.

The 100 cooperatives associated with FACACH have nearly 30,000 members, of which nearly 30% are farmers--medium and small, but not marginal. While credit unions have been extensively used for agricultural production, they have not hitherto had programs of associating loans with technical assistance. For its currently developing agricultural production credit program, FACACH is hiring agronomists and will associate with FUNDHESA in training "agricultural instructors" to provide technical assistance directly to farmer groups. As in the case of FUNDHESA, the quality of training of these institutions is of key importance and could be a point of program weakness. FACACH has a grant of \$190,600 from the Inter American Foundation for the administration of its program, including costs of providing technical assistance. FACACH also has an OFIC guarantee and the potential to arrange broader coverage.

FECORAH

FECORAH is the federation of some 60 cooperatives with 2,300 members organized under the Honduran land resettlement program. Its member cooperatives receive technical assistance directly from IKA and loans directly from BNF. The federation has only recently acquired legal status and has very limited staff. It is not essential to the success of the currently

proposed program that FECORAH be a borrower either for its own projects or those of its cooperative members. Either or both of these possibilities could, however, be considered if they would appear appropriate in terms of development of the program and of FECORAH. The role of FECORAH would be considerably enhanced if the organization were broadened to be the federation of communal farms generally (including asentamientos) rather than land resettlement groups only. Technical assistance provided under this program to develop effective organizational structures for the asentamientos will doubtless consider this as well as other options.

SECTION IV - FINANCIAL ANALYSIS

A. Program Summary

A summary of A.I.D. and GOB financing of the sector program is shown as Table A. The tables which follow establish a flow of loan funds for each year of the Program. A review of the tables reveals very limited A.I.D. budget support exclusively in the Coordination, Management, Planning and Evaluation activity. As may be seen, the GOB budget contribution for the latter activity increases steadily as the A.I.D. allocation declines to nearly zero in 1978.

A.I.D. financing of foreign exchange costs, some 27.3 per cent of the A.I.D. loan and 15.8 per cent of the total program is allocated primarily for external technical assistance, academic training abroad; and for vehicles, spare parts, and seed processing equipment and parts. GOB financing of foreign exchange costs is limited to the procurement of spare parts for foreign vehicles, to minimal technical assistance already programmed, and to family maintenance costs of employees studying abroad.

The GOB contribution to this program is a considerable one, reflecting the priority it gives to efforts the A.I.D. loan finances. The GOB contribution in the form of budget support is, by-and-large, incremental. Its personnel contribution for the Model Asentamiento activity is not incremental, but it is especially allocated to the activity and accordingly, it is included in the GOB contribution. GOB allocations for credit, in the case of the Cooperatives and Associations activity, will take the form of budgetary allocations for the National Development Bank, while credit for the model asentamiento activity may come from resources of the National Development Bank, funds already assigned to the Agrarian Fund or from budget allocations.

TABLE A
AGRICULTURE SECTOR PROGRAM SUMMARY
1 9 7 5 - 1 9 7 8
(\$000)

	<u>G O H</u>	<u>A I D</u>	<u>TOTAL</u>
<u>Model Asentamiento Activity</u>			
Credit	2,500	4,000 ^{1/}	6,500
GOH Personnel	485		485
	<u>2,985</u>	<u>4,000</u>	<u>6,985</u>
<u>Cooperatives & Associations</u>			
Credit	1,500 ^{2/}	2,000 ^{1/}	3,500
Technical Assistance		265	265
GOH Personnel			
Fomento Cooperativo Budget increase	400		400
Two additional professional employees at "Cooperative Window" BNF	60		60
	<u>1,960</u>	<u>2,265</u>	<u>4,225</u>
<u>Coordination, Management, Planning & Evaluation</u>			
Technical Assistance	100	601	701
GOH personnel and support costs for OPI- Ministry	420	220	640
(Additional Budget will be required for OPS as indicated in the Ministry's reorganization plan)			
	<u>520</u>	<u>821</u>	<u>1,341</u>

TABLE A (Cont.)

Improved Seed System

Revolving Seed Fund	055	300	355
Equipment & Parts		100	100
Operating budget increase (assumes budget of \$115 Thousand in 1975 increasing to \$175 Thousand in 1976)	174		174
Implementation of seed law (\$25,000 annually beginning in 1976)	75		75
	<hr/> 304	<hr/> 400	<hr/> 704

Agriculture Education

Academic Training abroad	164	1,093	1,277
Academic training in-country	115	371	486
	<hr/> 279 <u>3/</u>	<hr/> 1,464	<hr/> 1,763

Extension Service Support

Technical Assistance		040	40
Demonstration Materials		040	40
Vehicle purchase		152	152
Budget support (reflects increase in budget for extension service from \$467 Thousand in 1974 to \$818 Thousand in 1978)	1,037		1,087
	<hr/> 1,037	<hr/> 232	<hr/> 1,319

TABLE A (Cont:)

Vehicle Maintenance ^{4/}

Personnel (Budgetary commitment)	700		700
Technical Assistance	-	120	120
Construction	-	245	245
Equipment	-	157	157
Spare Parts & Accessories	190	430	620
	<u>890</u>	<u>952</u>	<u>1,842</u>
<u>Asentamientos Access Roads (350 Kilometers)</u>	<u>662</u>	<u>1,866</u>	<u>2,528</u>
TOTAL	<u><u>8,707</u></u>	<u><u>12,000</u></u>	<u><u>20,707</u></u>

1/ The GOH will transfer AID funds to the BNF as capital grants.

2/ To be provided through GOH budgetary transfers.

3/ The GOH input includes \$115 Thousand for in-country academic training in 1978. Additionally, the GOH will agree to budget \$332.6 Thousand in total for 1979-1982 to finance completion of in-country academic training initiated during the disbursement period of the loan.

4/ The GOH will commit sufficient funds annually for operation costs of vehicles.

TABLE B

AGRICULTURE SECTOR PROGRAM
ANNUAL EXPENDITURES
1975-78
(\$ 000)

	1975		1976		1977		1978		Total 1975-78			
									GOH		AID	
	GOH	AID	GOH	AID	GOH	AID	GOH	AID	\$	LC.	\$	LC.
I. Model Asentamiento Activity												
A. Credit	865	1,802.4	452	718.4	509	794.4	354	934.3	-	2,500	-	4,000
B. GOH Personnel	125	-	120	-	120	-	120	-	-	485	-	-
II. Cooperatives and Associations												
A. Credit	400	500	400	500	400	500	300	500	-	1,500	500	1,500
B. Technical Assistance	-	150	-	75	-	40	-	-	-	-	265	-
C. GOH Personnel												
Fomento Cooperative Budget increase	100	-	100	-	100	-	100	-	-	400	-	-
Two additional professional employees at "Cooperative Window", BNF	15	-	15	-	15	-	15	-	-	60	-	-
III. Coordination, Management, Planning and Evaluation												
A. Technical Assistance	50	211	50	253	-	57	-	80	50	50	451	150
B. GOH Personnel and support costs	90	95.5	92	71.5	108	40	130	13	-	420	-	220
IV. Extension Service Support												
A. Technical Assistance	-	20	-	20	-	-	-	-	-	-	40	-
B. Demonstration Materials	-	10	-	10	-	10	-	10	-	-	-	40
C. Vehicle Purchase	-	-	-	152	-	-	-	-	-	-	152	-
D. Budget Support (increments)	195	-	242	-	298	-	352	-	-	1,087	-	-
V. Vehicle Maintenance												
A. Personnel	100	-	150	-	200	-	250	-	-	700	-	-
B. Technical Assistance	-	45	-	42	-	33	-	-	-	-	20	-
C. Construction	-	100	-	145	-	-	-	-	-	-	50	195
D. Equipment	-	140	-	17	-	-	-	-	-	-	157	-
E. Spare Parts and Accessories	50	86	40	107	50	114	50	123	190	-	430	-

TABLE B (Cont.)

	1975		1976		1977		1978		Total 1975-78				
	GOH	AID	GOH	AID	GOH	AID	GOH	AID	GOH		AID		
									\$	LC	\$	LC	
VI. Improved Seed System													
A. Revolving seed fund	25	100	10	90	10	65	10	45	-	55	-	300	
B. Equipment and Parts	-	50	-	25	-	15	-	10	-	-	100	-	
C. Budget Support increment	16	-	33	-	53	-	72	-	-	174	-	-	
D. Implementation of Seed Law (\$25,000 annually beginning in 1976)	-	--	25	-	25	-	25	-	-	75	-	-	
VII. Agricultural Education													
A. Academic Training abroad	20	126.5	52	322	64	391	48	253	160	24	950	142.5	
B. Academic Training in-country	-	31	-	88.6	-	154.7	115	97.2	-	115	-	371.5	
VIII Asentamiento Access Roads													
A. (350 Kilometers)	124	578	74	355	236	469	228	464	-	662	56	1,810	
TOTAL ANNUAL EXPENDITURES									400	8,307	3,271	8,729	

TOTAL A.I.D. \$12,000

TOTAL G.O.H. \$ 8,707

B. GOH Debt Repayment Capacity

The Borrower will be the Government of Honduras which will also assure the repayment obligation, including that portion of the loan to be donated to the National Development Bank (BNF). Given the low levels of Government incurred international debt, contracted on fairly soft terms, the amount of foreign exchange going to service outstanding debt as a percentage of exports is quite low. Table IV-2 shows that Honduras has the lowest debt service ratio (debt service to foreign exchange) in Central America.

TABLE IV-2

CENTRAL AMERICAN DEBT SERVICE RATIOS: 1972
(Per cent)

Guatemala	10.5
Nicaragua	10.1
Costa Rica	10.0
El Salvador	4.0
Honduras	3.4

SOURCE: INRD Data

The trend of this ratio over the recent past indicates a slight rise to 3.2 per cent in 1973 as can be seen in Table IV-3

TABLE 17-2

HONDURAN DEBT SERVICE RATIO: 1965-72

	Debt Service (\$ Millions)	Exports (\$Millions)	Debt Service Ratio (Per Cent)
1965	3.3	138.6	2.4
1966	3.4	157.4	2.2
1967	3.5	170.6	2.1
1968	3.4	196.7	1.7
1969	4.3	186.7	2.3
1970	5.6	196.5	2.8
1971	7.0	215.5	3.2
1972	7.9	230.6	3.4
1973	10.6	279.3	3.8

SOURCES: 1965-72: IBRD Data
1973 : Mission estimates

The amount of foreign exchange needed for debt service will undoubtedly increase sharply during the next ten years as grace periods on international loans contracted to finance the 1965-1969 Development Plan terminate and as interest payments on the approximately \$250 million of external financing in the 1974-1978 Development Plan come due.

The "energy crisis" will not significantly impede Honduras' loan repayment capability. The balance of payments cost for crude are estimated at approximately \$33.25 million in 1974. This 1974 estimate is considerably higher than the 1973 balance of payments cost of crude (estimated at \$20 million) and the 1972 balance of payments cost which was \$15.5 million, according to the Central Bank. The 1974 estimate includes about an eight per cent growth in volume, and should be considered the "worst probable" case.

Given the strong demand for Honduran agricultural and forestry products in the world market and the reasonable condition of foreign exchange reserves as well as the anticipated capital account outflow, the balance of payments effect of petroleum will not constitute a significant problem. Preliminary figures for 1973 indicate an export

surplus of about \$65 million. Gross foreign exchange reserves as of December 31, 1973 were between \$42 and \$44 million.

In summary, there remains more than adequate capacity to service the Government's international debt as well as the new debt contemplated in the soon-to-be released 1974-1978 Development Plan despite the adverse effects of the increased price of crude petroleum.

SECTION V - LOAN ADMINISTRATION

A. Execution Plan

Disbursement Period

The loan is structured on a four-year basis tied to the implementation period of the GOH Agriculture Sector Development Plan (1974-1978). The four-year disbursement period is also considered to be important in terms of providing sufficient time for the consolidation of institutional change which this loan supports. In addition, the four-year period will help consolidate budgetary expansion plans of the GOH which are related to the loan as the GOH contribution in certain loan categories.

While some activities may be expected to be fully disbursed well before the end of the 4 year period others (e.g. academic training and evaluation) are deliberately designed to continue into the fourth year. In any case, it is the Mission's tentative plan to establish at the outset a terminal commitment date of October 1, 1978 and to disburse the loan fully by December 31, 1978. The Mission is confident that the design of the loan and the capacity of the executing agencies will permit the commitment and disbursement of funds as contemplated or sooner. While the first year of disbursement has been established as CY 1975, it is likely that some disbursement activity will begin sooner, particularly in certain technical assistance categories.

In designing the sector program, the Mission has exercised particular prudence in estimating financial requirements and implementation capacity of the various executing agencies, including the private sector institutions. Accordingly, it is quite possible that loan funds for credit and other activities will be exhausted at a much earlier time than now foreseen. Should this develop the Mission would consider proposing additional assistance after 1976, should performance based on objective evaluation of the program activities so justify. Such a determination, if made will be the outcome of a formal review of the sector program with the host government.

Annual Evaluation/Programming

An important tool in the execution of the loan will be

annual evaluation and programming. Evaluation of the program financed by the loan will be facilitated by the institutionalization of evaluation capability within the sector institutions and by designing evaluation directly into the loan-financed program. The most important evaluation subject will be the small farmer; and the impact of the program on his income and well-being will be the subject of periodic formal evaluation. Institutional evaluation will likewise be structured into the loan. Evaluation of other loan activities will take the form of more conventional approaches to determining progress and identifying problems. This evaluation process will take place annually beginning in the 3er. quarter of 1975. All activities will not be evaluated in-depth simultaneously. Each will have its own schedule. However, an appropriate evaluation of each activity will be undertaken prior to August 15 of each year beginning in 1975 to permit programming and host country budget allocations for the subsequent year.

The annual evaluation/programming process will culminate with discussions between the Mission and the GOH Agriculture Sector Coordinating Committee in August of each programming year to coincide with GOH budget preparation. This will assure high level attention to problems within the program and adequate budget for loan-supported activities. Each loan activity has been carefully designed on the basis of sound cost estimates and is included for financing because of its demonstrated high priority among sectoral requirements and in GOH planning. Nevertheless, past experience in sector programming has demonstrated that changes inevitably are required during the program's implementation period. Accordingly, it is recommended that the Mission be given authority to revise the level of any loan activity by no more than 15 per cent of the amount of each activity proposed herein. The levels proposed herein will be fixed in the agreement between AID and the Borrower. Any more significant change within the authorization would require a Delegation of Authority from the AA/LA.

B. USAID Monitoring Responsibilities

The eight projects included within this program will be monitored by the Rural Development Division (RD) with such assistance as may be required from the Capital Development Office for Loan and Engineering matters, and from the Multisector Division for agricultural academic training.

The Rural Development Office is currently monitoring two loans, Agricultural Credit and Storage; and Grain Marketing; however, the former is expected to be completely disbursed by the end of CY 1974, and the latter will see the Conditions to all of its components met and its flow of funds moving smoothly, with an increasing volume of grain buying late in the 1974. Another loan (National Cadaster) is currently under consideration in AID/W; if approved, it will fall under the responsibility of the same office with such assistance as may be requested from the loan office. The Rural Development Office also will be monitoring two Grant projects, Core Services and Agricultural Cooperatives (to be proposed). The expansion of the Core Services PROP and the new cooperatives PROP will provide the Rural Development Office with the assistance it will require to monitor these ambitious programs.

C. Procurement and Disbursement

Procurement from Code 941 and the CACM countries will be authorized consistent with AID Capital Projects Guidelines, and will be carried out by the various GOH offices charged with the execution of the program. The financing of credit operations will be carried out in compliance with the Guidelines concerning intermediate credit institutions. Procurement of fertilizers and other credit financed inputs will be local cost ICI procurement consistent with the AID Guidelines.

Established A.I.D. disbursement procedures will be followed. Dollars will be disbursed through the AID Letter of Commitment procedure and disbursement for local costs will be in accordance with procedures to be determined by the USAID Controller.

SMALL FARMER CREDIT DELIVERY SYSTEM IN HONDURAS

- A. Existing Systems. The overall credit system is composed of a Central Bank, National Development Bank (BNF), with several branch offices, private commercial banks under a branch banking system, a credit union organization, and various other cooperative and group organizations that deal in credit for their members. Finance companies also exist in the system and lend small amounts to the Agricultural Sector.

Approximately 40% of all Loan Portfolio of the banking system is to the agricultural sector.

A summary of lending levels to agriculture by source for 1963-1973 is shown in Table on page 15.

The Central Bank of Honduras (CBH)

The Central Bank of Honduras allocates credit in a very general way through regulations which limit consumption and commercial lending to not exceed 30% of a private bank's loan portfolio. The remaining 70% can be distributed at will among productive enterprise in agriculture, industry, marketing of agricultural commodities, mining, forestry, etc.

Credit expansion is limited by controls which require minimum legal reserves and which set limits on the level of re-discount provided the banking system. The present level (\$19.6 million - L.39.2 million) is subject to change as required to keep the money supply consonant with Gross Domestic Production. Of this amount, each commercial bank earns a quota according to the historical level of lending for productive enterprise.

Commercial and consumption loans may not be re-discounted. The Central Bank charges 4%-6% for re-discount of eligible loans at terms not to exceed one year, and not to exceed the portion of a loan which becomes eligible within a year.

On February 27, 1974, the Central Bank established a special rediscount fund of \$7 million (L.14 million) in an attempt to induce the commercial banks to expand

their lending to small farm operators and to small industry. Loans must not exceed L.15,000 (\$7,500) and must be granted after March 15, 1974. This Central Bank Policy shows the Central Bank intent to direct commercial bank lending towards new small farmer clients; the policy regarding this special re-discount is subject to review every three months.

Permissible annual interest rates for the commercial banking system vary from 6%-9% on loans for "production"; to 10%-11% for home mortgage lending; to 12%-14% on small personal loans; to a maximum in any case of 18%. Banks are permitted to charge commissions in a limited number of cases for inspection and monitoring services not to exceed 1%-2% for one time on the loan amount. The other side of this coin is that banks are not permitted to pay more than 4% for pass-book savings accounts or 7% on longer term certificates of deposit.

The BNF is the major supplier of credit to the Agricultural Sector. Commercial Banks also provide a considerable percentage of total lending to the Sector. However, most commercial bank lending is to larger operators, and especially to industrialized crops and livestock. The BNF is estimated to provide over 90% of all lending to small farmers, 1/ either directly or through cooperatives and other group organizations. Of approximately 17,000 loans made to small farmers in 1971 by the institutional system, an estimated 1,000 were from commercial banks, about 10,000 from the BNF directly, and approximately 6,000 from cooperatives and other groups. These 17,000 small farmers represent about 12% of the total number of small farmers in Honduras.

Banco Nacional de Fomento (BNF)

The BNF was created in 1950 and has grown to be

1/ For the purpose of this discussion, a small farmer is defined as one with:

- no more than \$10,000 in capital stock
- average gross annual income not more than \$15,000
- Farm size not more than 15 hectares.

the largest lender in the agricultural sector. It is estimated that in 1974 the BNF lending level to the agriculture sector will total more than-US \$31,000,000.

Agricultural credit operations are the responsibility of the Loan Department of the BNF. 2/

Headquarters for this Loan Department is located in Tegucigalpa and is divided into Offices and Sections as follows:

1. Office of Loan processing
2. Appraisal and Inspection Section
3. Legal Section
4. Livestock Development Section
5. Agricultural Development Section
6. Credit Analysis Section
7. Loan approval organism:
 - Credit Committee - up to L.50,000.
 - Execution Commission - L.50,001 to L.75,001.00
 - Credit Operations Commission - L.75,001.00 to L.200,000.00
 - Board of Directors - Over L.200,000.
8. General Secretariat
9. Loan Implementation Section.

a. General Lending Procedures

Present general lending procedures operate as follows:

1. Loan applications are received by any bank office or by field personnel. The person receiving the application assists the applicant to complete the appropriate forms. In case a chattel mortgage or real estate mortgage is involved, an inspection must be made of the property, unless a recent previous inspection has been made by the Bank.

2/ An organization Chart for the BNF is shown in Chart on page 15.

Obtaining an inspection involves completion of the proper request form. The inspection then must be carried out by the Appraisal and Inspection Section.

In the case of field personnel, any inspection or appraisal of chattels or real estate is made on the spot; thereby avoiding the additional step of processing through the appraisal and Inspections Section.

2. All documentation, as completed above, is turned over to the Office of Loan processing of the Headquarters Office in Tegucigalpa*. This Office handles the Loan through the information collection process.
 - a. The loan is registered in a record book.
 - b. Any chattel inspection request is sent to the Appraisal and Inspection Section to carry out.
 - c. Any Real Estate documentation is sent to the Legal Section for an opinion as to whether good title exists that can be mortgaged. The legal opinion and an order for appraisal of real estate is prepared here and returned to the Office of Loan Processing.
 - d. In cases where the loan processing Office considers that an economic review is necessary (usually the case for livestock loans and other intermediate term loans), the loan file is turned over either to the Livestock Division or the Agricultural Development Division for their opinion.
 - e. Once all these opinions, reviews and processing are completed and in hand, the Loan Processing Office has completed its labors, and the loan file is turned over to the Credit Analysis Section.

* For loans under L.50,000, the branch office may be able to process the loan, through all stages.

3. The Credit Analysis Section does a financial and risk review of the file and draws up a recommended resolution for presentation to the appropriate loan approval Committee or Commission. If the loan request exceeds L.75,001.00, this Office must prepare an analytical report to accompany its recommendation. The file then goes to the appropriate approval body which either approves, rejects or requests additional information.
 4. From this point on, the General Secretariat takes over, and formalizes the decision of the approval body, in an appropriate form, notifying the applicant of the results.
 5. Approved applications then go to the Loan Implementation Section, where conditions precedent are monitored. Once any conditions precedent are complied with, the file goes back to the Legal Section where draft loan contracts are made up and sent to the relevant branch. Processing for those applications made in the Headquarters Office are finalized by the legal section, and signing is completed so disbursements can begin.
- B. Decree Law No.8 - Loan Program for "Asentamientos".

In December, 1972, the Government approved a Decree Law that set up a special Fund (Agrarian Fund) in the BNF to provide credit mainly to the asentamientos created by INA under the Agrarian Reform program. Special rules were applied to the lending of these funds. These special rules are summarized below:

1. Eligibility for Credit - limited to peasants who have not previously received agricultural credit from any institutional source, and who have been provided with lands by INA, either from national lands, or through temporary possession of private lands granted under special rules. Additionally, INA - sponsored individual colonizers of virgin lands, and legally constituted (including those "in process") INA agricultural production cooperatives or peasant associations are eligible. Priority is given to peasant groups and, in practice, loans have been limited to groups.

2. Type and Terms of Credit - Amount and purpose of the loan is based exclusively on an investment plan developed by the borrower, with the assistance of a BNF agent and/or DESAGRO. Both production and longer term investment loans are allowed. In the case of fixed capital investment, borrowers are eligible only if they have been placed by INA on national land or have a rental contract on private land (approved by INA) for a period long enough to recuperate the loan. Security for the loan is based primarily on moral character, capacity for work, and potential repayment capacity of the borrowers. Collateral security can include crop mortgages and chattel mortgages, and, in all cases, the guarantee of INA.

Peasant groups that are not legally constituted must commit themselves to joint and several liability on the loan. The procedure used to achieve this is as follows;

The group, in a general assembly, elects a President, Secretary, Treasurer, Fiscal agent and two representatives, as a Board of Directors. The assembly empowers a selected pair of the Board to borrow money in the names of all, committing them all to joint and several liability. The Bank accepts a resolution to this effect as authority for the representatives to execute loan documents in the names of all members, yet it recognizes that this is not a legally binding commitment. The Bank, nevertheless, has adopted a policy of accepting this procedure, since it will suffer no loss from non-payment, due to the INA guarantee. Further, the Bank believes that most group members, involved in a assembly meeting making such a commitment, will feel morally committed to repay the loan.

Under the regulations, the interest rate is set at 9% annually, 6% of which is to go to the Bank to cover administrative costs, and 3% which is to be added to fund capital. In practice, the Bank has charged only 6% interest.

The procedures for processing loan applications are considerably simplified, as compared to

the general lending procedures of the Bank. All loan applications are processed and implemented at the BNF field branch, without a requirement for Headquarters office intervention. BNF field officers and DESAGRO agents are empowered to assist the asentamientos in developing an investment plan, make any required inspection, develop a lending and repayment plan, and other related matters.

When the BNF branch receives the appraiser's report, it can approve the loan through a "credit committee", made up of the Branch Manager, Loan Officer (if there is one), and the Accountant or Bookkeeper. If the Branch has no loan officer, the cashier serves on the Committee. Loan application documents must include a certification from INA that the borrower is in possession of a parcel of land, and under what title (owned, rented, temporary possession, etc.).

Once the loan is approved, withdrawal against the loan is permitted only as a Bank appraiser, or an INA or DESAGRO agent, certifies that the funds are needed in the production activities financed.

The BNF regulations call for strict supervision of the financed activity. In practice, very little supervision has been possible in most cases.

The harvest cannot be sold without BNF authorization. The Borrower has three alternatives:

1. Sell to the BNF at a negotiated price.
2. Store the harvest in BNF storage facilities and wait for improved prices.
3. Store in BNF facilities and obtain a loan against a warehouse receipt.

BNF has the power to call loans on borrowers who do not follow recommended practices.

Under the terms of an agreement between DESAGRO, BNF and INA, DESAGRO has the responsibility to provide technical assistance to the asen-

tantamentos, from the initiation of production activities through harvest and marketing. In special situations, INA provides the technical assistance.

With a total of only 65 extension agents for the whole country in 1973, DESAGRO had considerable difficulty in living up to their commitment. By DESAGRO estimates, they should have one agent for each 6 to 7 asentamientos. Thus, for the 142 asentamientos receiving loans in 1973, the demand on DESAGRO was for approximately 22 agents for the asentamiento program (one third of their total agent force). DESAGRO plans to close several of its extension offices in 1974 and shift most of the extension agents to the asentamiento program. Further, they expect to increase the agent staff in 1974 to a total of 130, of which 10 will be for technical assistance to cooperatives, 40 for technical assistance to farmers receiving credit under the BID loan program in the Aguán Valley, and the remaining 80 for asentamientos, thereby theoretically permitting adequate technical assistance services to some 520 asentamientos. Such a plan of use of DESAGRO agents excludes all DESAGRO extension services to the more than 125,000 individual small farmers that are not affiliated with any cooperative or INA group.

C. Small Farmer Supervised Production Credit Program. - The BNF first initiated efforts at a supervised small farmer credit program in 1952. The concept was resurrected in a small way in 1968, but gained momentum in 1970 when an AID loan for \$4.5 million was used to create a fund for supervised agricultural credit. The delivery system for this program (called SAC), is as follows:

1. Eligible Borrowers - Small farmers cultivating 2 to 15 manzanas of basic grains, who cannot obtain credit elsewhere. Small scale livestock producers are also eligible.
2. Execution responsibility rests primarily with the BNF, together with DESAGRO, which is to provide technical assistance.

3. **Type of credit-production credit for specific crops.** The program began with basic grains (corn, beans, rice and sorghum in addition to small scale livestock projects. However, the loans are made on a project basis and not on a "whole farm" (economic unit) basis. The regulations specify that loans can include amounts to pay for labor when it is "justified".
 4. **Credit terms -** Interest rate is 9%. Loans are made for approximately one year with payment due on April 30. Livestock loans are usually for a longer period, usually 3-5 years. Refinancing is allowed where it is justified. Security is the crop or livestock being financed.
 5. **Other characteristics -** The regulations fix upper limits on the amount that can be loaned per manzana, and provide for provision in kind of inputs such as seed, fertilizer and insecticides, on a fixed amount per manzana. However, this is usually not done. Loan funds are disbursed in three stages - to initiate land preparation, planting and cultivation, at beginning of harvest, and for transport cost of harvest to market. A borrower who does not follow recommended practices is subject to having his loan called. Approval of loans is made at the level of the BNF branch receiving the application.
- D. **BID Agrarian Reform Fund.** - This fund operates under a system similar to the SAC fund. However, it is limited by geographic area (Aguafn Valley). It also provides for production credit, as well as for medium and long term credit. The interest rate is fixed at a maximum of 6% annually.
- E. **BNF Agricultural Cooperatives Window.** - In 1973, the BNF established a cooperatives and group organizations "window". Through this Window, the BNF lends funds directly to agricultural cooperatives, farmers associations and other legally constituted groups of farmers (as well as to Federations of these). Since 1970, and to some extent at present, the BNF also handles loans to cooperatives through its general lending operations. It was lending mainly to coffee, sugar and cotton cooperatives, but also made loans through INA and

ANACH (a peasant organization described elsewhere) to basic grains cooperatives.

Beginning in 1973 with the opening of the "Coops Window", the BNF has increased considerably its lending to farmer's group organizations. Source of funds still is the general fund, although AIF recently contributed \$744,000 which will be in a segregated account.

Loans are made for:

1. Production credit for either direct use or for sub-lending to individual farmers, (in the case of federations).
2. Processing of agricultural products
3. Marketing and transportation of agricultural products.
4. Purchase of machinery, equipment and inputs used in agricultural production.
5. Land development for agricultural activities, such as irrigation, drainage, wells, land reclamation, reforestation and rural housing. The BNF estimates that in 1974 it will lend about \$12,000,000.00 through its cooperative window to some 155 cooperative with some 6,400 members. Of these, all but 77 are cotton, banana, sugar cane and coffee cooperatives. For basic grains and other crops, the credit demand is estimated at US \$1,350,000.00 for 1974.

Interest rates presently vary from 6% to 9%. In those cases where the BNF lends funds to an intermediate organization, such as a coop federation, for relending to member cooperatives, the interest rate charged is 6% to 9% annually. If the loan is made directly to a cooperative for its own uses, the rate is 9%. If it is to be relented to individual members of the coop, the BNF rate to the cooperative is 9%. Lending procedures are the same as for general lending operations of the Bank.

F. Other Special Credit Activities. - Special credit activities, financed from the BNF General Fund, and through special rediscounts with the Central Bank, are periodically instituted for temporary periods. These activities usually carry a special rate of interest of 6% annually.

A World Bank (IBRD) financed Livestock Fund has been set up in the Central Bank through which commercial banks can discount loans they make to livestock producers. The second IBRD loan for this Fund was recently signed. This second loan includes provisions for sub-loans to smaller livestock producers (25 beef cows - 10 milk cows). Also, under the second loan, the BNF will be allowed to discount loans, in addition to commercial banks.

In summary, delivery systems for credit to small farmers in Honduras are varied and complex. Chart on page 13 summarizes the existing system in graphic form, in terms of source of funds, lending institutions, interest rate, eligible borrowers and technical assistance source. Further, existing inter-institutional relationships among those institutions involved in assisting small farmers in some aspect of the Delivery System, also are varied and complex. Chart on page 14 attempts in graphic to summarize these relationships.

FINANCIAMIENTO DE PROYECTOS AGROPECUARIOS A TRAVÉS DEL SISTEMA BANCARIO NACIONAL

(CIFRAS EN MILES DE LEMPIRAS)

Institución	1969		1970		1971		1972		1973	
	Monto	% del total	Monto	% del Total	Monto	% del Total	Monto	% del Total	Monto	% del Total
Bancos Comerciales	33.519	36.8	45.521	43.0	56.371	48.3	64.102	47.6	68.993	46.1
Banco Nac. de Fomento	52.034	57.1	53.363	50.4	59.872	51.4	69.998	52.0	80.094	53.5
Compañías Financieras	5.539	6.1	6.944	6.6	348*	0.3	551*	0.4	588*	0.4
TOTAL	91.092	100.0	105.828	100.0	116.591	100.0	134.651	100.0	149.675	100.0

Fuente: Banco Central de Honduras

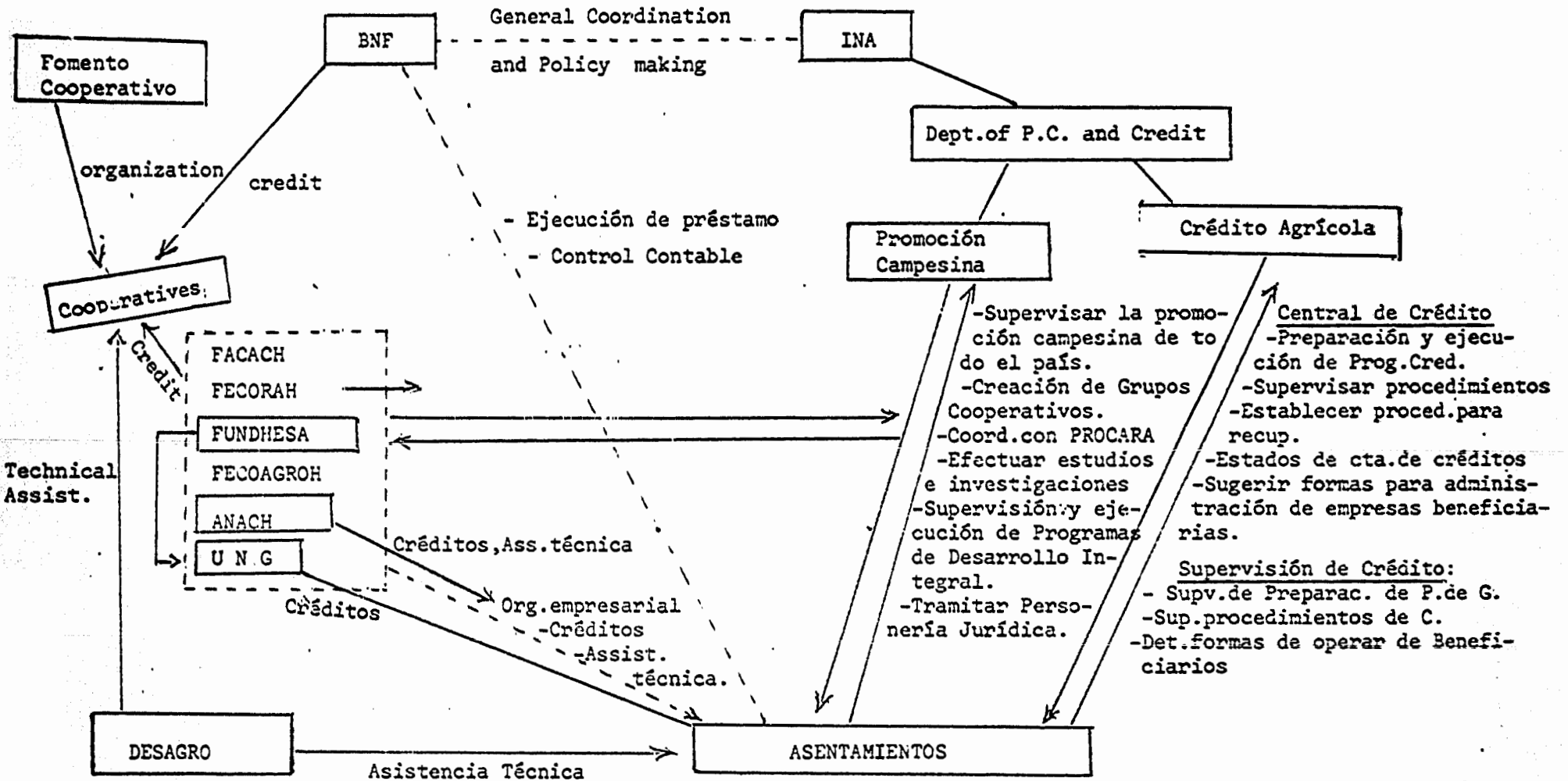
* De 1971 en adelante, la Financiera Hondureña aparece considerada dentro del grupo de Bancos Comerciales.

SMALL FARMER CREDIT DELIVERY SYSTEM, BY SOURCE FUNDING, LENDING INSTITUTION, INTEREST RATE, DELIVERY MECHANISM AND CHANNEL, ELIGIBLE BORROWERS AND TECHNICAL ASSISTANCE SOURCE.

HONDURAS, April 1974

Sources of funding	Lending Institutions	Interest rate & Delivery Mechanism Channel	Eligible Borrowers	Technical Assistance Source		
(a) GOH Rollover Commerc. Banks Central Bank AID BID	BNF	6% - 9% General Fund - Direct	Individual Small Farmers (S.F.)	DESAGRO None		
	INA	6% Agrarian Fund- INA Direct	Asentamientos Agr. Reform Groups	INA DESAGRO		
(c) Gral. Fund AID	BNF	9% Cooperat. Windows Direct	Cooperatives	Coops DESAGRO		
			Groups of S.F. Individual S.F.	None		
(d) "	BNF	9% Cooperat. Windows	ANACH	Individual S.F. Asentamientos or S.F. Groups	INA DESAGRO ANACH None	
(e) "	BNF	9% Cooperat. Window	FACACH	Coops and Groups SF Individual SF	S.F. Coops DESAGRO None	
(f) "	BNF	9% (?) Cooperat. Window	FUNHDESA	U.N.C. Coops & Groups	Individual S.F. S.F.	One or more inter-mediat- es None
(g) BID	BNF	6% Special Fund. Direct-INA		Aguan Valley Agrar. Reform Beneficiaries	INA DESAGRO Comm. Bks. BNF	
(h) IDA	Central Bank	Livestock 5% Discount Fund	BNF & Cm. Bks.	Groups Small Farmers	9% DESAGRO	

- INTER-INSTITUTIONAL RELATIONSHIPS INVOLVED IN THE DELIVERY SYSTEMS
FOR SMALL FARMER CREDIT IN HONDURAS - April, 1974.



AGRARIAN FUND

A MODEL FOR CONSOLIDATION OF THE ASENTAMIENTO PROGRAM

A. Background

(1) Target Group: Background and History of "Asentamientos Campesinos"*

The "asentamientos campesinos" were formed under Decree Law No. 9, the emergency agrarian reform decree of December 26, 1972. At present (April 1, 1974), there are 373 asentamientos with 15,222 families on 61,626 manzanas of cultivated land, an average of 2.0 manzanas per family. These asentamientos are located in most of the Departments of the country (see Table A-1).

The formal structure of the asentamientos as legal entities is to be clarified by the new Agrarian Reform Law expected to be approved shortly. To date, they have been organized as informal groups by the Asociación Nacional de Campesinos de Honduras (National Association of Peasants of Honduras - ANACH) and by the Union Nacional de Campesinos (National Peasants Union - UNIC), and by promotional activities of the National Agrarian Institute (INA). The GOH anticipates that most of these groups will eventually be formalized as some type of Cooperative or "empresa comunitaria" (communal enterprise).

The management and administration staff is selected from among the members, who draw on technical and other assistance from INA, the BNF and DESAGRO.

General characteristics of the asentamientos as socio-economic units are expected to be the following:

- Title to land will be held by the legally constituted entity for the benefit of all members. A system will be developed to allow membership change, and appropriate compensation to leaving members (or death of a member). In the case of death, a transfer system to another family member will be provided for.
- The asentamiento will pay wages to members for work done. Returns to land, management and profits will be allocated to reinvestment, or distribution to members on the basis of work input, after satisfying loan repayment requirements.

* Asentamientos are defined as farm businesses operated on land rented by the GOH under provisions of Decree Law⁹ of Dec. 26, 1972, by previously unemployed or under-employed farm laborers or small farm operators associated into groups as proteges of INA.

Table A-1

Asentamientos by Region and Departments to April 1, 1974

Region	Departments	No. of Asentamientos	Area (Mz)	No. of families	Area per family (Mz)
South	Choluteca	79	12,617	4,129	3.0
	Valle	13	1,052	416	2.5
Central	Francisco Morazán	16	2,273	927	2.9
	Comayagua	16	3,531	1,056	3.3
	Intibuca	2	592	65	9.2
North Occidental	Cortés	56	9,353	1,949	4.7
	Santa Bárbara	19	5,049	868	5.9
	Copán	9	423	251	1.7
	Ocotepeque	1	30	32	0.9
	Yoro	43	6,605	1,826	3.6
	Lempira	1	110	108	1.0
North Coast	Atlántida	31	5,081	1,060	4.8
	Colón	4	1,505	310	4.9
	Islas de la Bahía	1	87	15	5.8
Olancho	Olancho	47	8,208	1,495	5.6
Orient	El Paraíso	35	5,110	1,549	3.3
TOTALS		373	61,626	15,928	3.9

- The asentamientos will be oriented toward commercial production, although garden plots in connection with living quarters are contemplated.
- Administration costs will be paid by the asentamientos. It is expected that several asentamientos will share costs for contracting adequate administrative services (accounting, administrative procedures, etc.).

For the period 1974-78, the GOH initially projected organization of 1,200 asentamientos in an area of 600,000 Has. benefitting 120,000 farm families. Of the 600,000 Has. to be involved, 40% is State owned and 60% is to come from unutilized and underutilized privately owned lands to be purchased under the agrarian reform program.

CSPE has made adjustments in the projections for areas to be brought into cultivation during the plan period. Of the total area, CSPE expects that approximately 400,000 hectares would be potentially arable land which would be brought gradually under cultivation by the various asentamientos. During the period 1974-78, estimates are that 334.5 thousand hectares will be cultivated by asentamientos in commercial cooperatively-produced crops and individual home garden plots. (See Table A-2).

On the basis of CSPE projections, and considering at least 3 hectares of cultivable land per family (see profitability section) to provide for a minimum income per member's family and some degree of capitalization, a maximum of 111,500 families can be settled in the projected area. However, 5 hectares per family should be considered to be more suitable in some regions where only one crop per year is feasible.

(2) Credit Experience and Overall Credit Demand

In order to provide credit to the beneficiaries of Decree No. 9, IIA was provided with a special fund of four million Lempiras, administered by the BIF (Account "Crédito Agrario-IIA"). The BIF is to add four million Lempiras more (Account "Crédito Agrario-BIF") for this purpose. To date, disbursements have been made only from IIA funds.

Table A-3 shows amounts and distribution of credit received by asentamientos by geographic regions and Departments through 1973. Since most of the loans come due on April 30, 1974, it is not possible to determine default rates.

TABLE A-2: Adjusted projections of cultivated area in Hectares on all asentamientos, number of families to be benefitted and number of asentamientos, 1974 - 1978, Honduras.

	1974		1975	1976	1977	1978	Cumulative Totals
	to April 1 (cum)	1974 (new)					
No. Asentamientos	373*	65**	145	145	110	110	948
No. Families	15,928	6,500	14,571	14,571	10,000	10,000	73,370
Cultivated Area by year							
- 1974	42,920	18,280					61,200
- 1975	(combined)	85,700	40,800				126,500
- 1976	"	97,900	57,100	40,800			195,800
- 1977	"	110,200	65,300	57,100	30,600		253,200
1978	"	122,400	73,400	65,300	42,800	30,600	334,500

* Actual data from INA.

** Projections after April 1, 1974 are based on the National Development Plan goal of 100 families per asentamiento. Area per family is based on actual average area per family to date of approximately 2.3 hectares per family.

Source of Data: Cultivated area projections from CSPE.
Data on asentamientos to April 1, 1974 from INA.

Table A-3. Summary of Credit Received by Asentamientos from INA funds to December 31, 1973

Regional Offices	Departments	No. of asentamientos	Amount of	Repayments ^{a/}
			Credit Received	
			Lemp.s.	Lemp.s.
South	Choluteca	53	312,152	69,783
	Valle	-	-	-
		53	312,152	69,783
Central	Francisco Morazán	16	110,688	1,573
	Comayagua	8	150,982	127
	Intibuca	1	5,810	-
		25	267,480	1,700
North Occidental	Cortés, Santa Bárbara			
	Copán, Ocotepeque and			
	Lempira	18	127,017	22,625
	Yoro	10	123,976	5,377
		28	250,993	28,002
North Coast	Atlántida	13	78,211	18,692
	Colón	1	19,350	-
	Islas de la Bahía	-	-	-
		14	97,561	18,692
Olancho	Olancho	11	69,847	2,080
Orient	El Paraíso	11	165,331	5,937
TOTALS		142	1,163,364	126,194

a/ Most of these loans come due on April 30, 1974. Although most of the crops have been harvested, precise information on amounts and rates of repayment (recuperation) is not available since some harvested grains may still be in silos awaiting better prices. Credit went to 142 asentamientos with 5,080 families.

The emergency conditions under which credit to date has been disbursed could not be expected to show favorable results. Credit was provided with very little (often none) control, supervision or technical assistance.

Overall credit demand for asentamientos can be estimated on the basis of projections of cultivated areas for the years 1974 to 1978 shown in Table A-2, related to average credit use per hectare (or manzana).

Credit requirements to cover total costs of production, including labor costs, can be obtained from the budgets presented in the profitability analysis section. Credit requirements for different crop mixes (rotations most commonly used) are as follows:

<u>Plan A</u>	<u>Credit per Ha.</u> <u>Lempiras</u>
First Crop : Rice, high technology	622.00
Second Crop: none; one crop per year	
Total credit per year (Lemps.)	<u>622.00</u>
 <u>Plan B</u>	
First Crop : Corn, intermediate technology	285.00
Second Crop: Beans, intermediate technology	248.00
Total credit per year (Lemps.)	<u>533.00</u>
 <u>Plan C</u>	
First Crop : Rice, intermediate technology	433.00
Second Crop: none; one crop per year	
Total credit per year (Lemps.)	<u>433.00</u>
 <u>Plan D</u>	
First Crop : Corn, intermediate technology	285.00
Second Crop: Sesame, intermediate technology	145.00
Total credit per year (Lemps.)	<u>430.00</u>
 <u>Plan E</u>	
First Crop : Sorghum, intermediate technology	212.00
Second Crop: Beans, traditional technology	194.00
Total credit per year (Lemps.)	<u>406.00</u>
 <u>Plan F</u>	
Others - Total credit per year (Lemps.)	450.00

1974-1978 Projections of Credit Demand for asentamientos can be estimated from projected distribution of crops to be cultivated based on distribution in 1973 (See Table A-4). Crop distribution for the 334,500 hectares projections of the GOH, is estimated as follows:

Corn	60%
Beans	25%
Rice	10%
Grain Sorghum	5%

Based on these estimates, the crop combination distribution can be estimated as follows:

Plan B:	Corn - Beans	60%
Plan C:	Rice	10%
Plan D:	Corn-Sesame	10%
Plan E:	Grain sorghum- beans	5%
Plan F:	Other Crops	15%

A weighted average credit demand (Cd) per hectare now can be estimated on the basis of annual credit requirements per hectare for the proportional distribution of crop combinations:

$$Cd = 0.6 (533.00) + 0.1 (433.00) + 0.1 (430.00) + 0.05 (406.00) + 0.15 (450) = L. 494.4 = \text{approx. L. } 490.00.$$

From these estimates and area projections shown in Table A-2, estimates are derived for total credit demand for production in the asentamientos, as follows:

	<u>Production Credit Demand (000's Lemn.)</u>	<u>Medium Term Credit Demand (000's Lemn.)*</u>	<u>Total Credit Demand (000's Lemn.)</u>
1975	61,985	15,476	77,461
1976	95,042	8,489	103,531
1977	128,968	8,256	137,224
1978	163,905	8,734	172,639

* Assuming a demand equal to 25% of annual increment in production credit demand.

Table A-4

Distribution of crops financed by "INA Funds" in Asentamientos to December 31, 1973 (Manzanas 000's)

Regions	Departments	Maíz	Beans	Rice	Sorghum	Cotton	Ajonjolí	Others	Totals
South	Choluteca Valle	2,379	99	610	73	275	486	23	3,945
Central	Francisco Morazán Comayagua Intibuca	1,462	688	123	-	-	200	159	2,632
North Occidental	Cortés Santa Bárbara Copán Ocotepeque Yoro Lempira	2,400	30	243	-	-	-	10	2,683
North Coast	Atlántida Colón Islas de la Bahía	1,780 200	30	130 200				19	1,959 400
Olancho	Olancho	238	15	29		306		2	590
Orient	El Paraíso	556	939	70	120			30	1,715
	TOTALS	9,015	1,801	1,405	193	581	686	243	13,924
	%	64.7	12.9	10.1	1.4	4.2	4.9	1.8	100

Based on these results, credit flows and financing requirements for 1974-1978 have been estimated (see Table A-5).

Another criterion not considered in the CSPE adjustments for asentamientos growth has to do with profitability as economic production enterprises. Profitability estimates (see profitability section) indicate in general that asentamientos with less than 2 mzs. per family cannot be considered viable for credit use, unless additional production intensification activities can be initiated (pork, poultry, vegetables, etc.). To initiate such intensive activities requires special conditions related to physical and human resources (trained workers, close supervision, etc.). Thus, the credit demand estimates shown in Table A-4 should be considered as maximum theoretical levels.

For example, in the municipality of Cholulucá, there were (on November 12, 1973) 18 asentamientos with 3,551 mzs. and 1,295 families. Seven (39%) had an average area per family of less than 2 mzs. These seven asentamientos contain 479 families in 616 mzs, with an average area per family ranging from 1.00 manzana to 1.9 mzs. Other areas have similar situations.

With more complete information, more realistic estimates of credit demand could be made. Table A-4, as stated above, should be considered as a theoretical maximum. Several variables intervene that would tend to reduce this amount:

- 1) Some areas of the country can produce only one crop per year of corn or beans. The estimate has been made on the basis of two crops per year, due to lack of data for discriminating among areas.
- 2) The number of families projected to be settled on asentamientos may be optimistic. If one considers the asentamientos as a GOI program to generate productive employment for presently unemployed members of the labor force, a reasonable means of estimating the magnitude of the program would be to determine the size of the unemployed labor pool for each year, and the absorption goal; given the plan efforts to accelerate development. The residual would be potential settlers on asentamientos. No such estimates have been made. Such estimates well may show considerably less than 120,000 families as potential participants as estimated by IIA.
- 3) Many of the theoretically available families may not in fact be subjects of group settlement due to social incompatibility with the group labor concept. There already are indications that some of the asentamientos created in 1973 are breaking up. Whether this is because of social incompatibility, lack

Table A-5.- Funds Needed to Satisfy the Total Demand for Asentamientos (Thousands of U.S. Dollars)

Years	S U P P L Y			D E M A N D					
	Rollover Short-Term	Rollover Long-Term	Total Rollover	Short-Term Credit Demand	Six-month Short-term Rollover	Net Annual Short-term Demand	Long-term Credit Demand	Total Credit Demand	Funds Needed
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1975				30,992.5	12,397.0	18,595.5	7,738.0	26,333.5	26,333.5
1976	16,735.9	1,549.6	18,285.5	47,971.0	19,188.4	28,782.6	4,244.5	33,027.1	14,741.6
1977	25,904.3	2,396.5	28,300.8	64,484.0	25,793.6	38,690.4	4,228.0	42,918.4	14,517.6
1978	34,821.3	3,222.1	38,043.5	91,952.5	32,781.0	49,171.5	4,367.0	53,538.5	15,495.0
Total funds needed: U.S. \$									71,087.7

- (1) Assumes 10% default rate i.e. (1) = 90% of column (6) in previous year
- (2) Assumes 20% recovery rate after each year; (2) = 0.20 of column (7) after from every previous year
- Colm. (3) = Colum (1) + Column (2)
- Col. (4) derived from production (short-term) credit demand estimations
- Col. (5) = 40% Col. (4)
- Col. (6) = Col (4) minus Col. (5)
- Col. (7) = assumes long-term credit to be equal to 25% of short-term production credit demand
i.e. Col (7) = 0.25 of Col. (4)
- Col. (8) = Col. (6) + Col. (7)
- Col (9) = Col. (8) - Col. (3).

of GOH support, or other reasons, is not clear.

- 4) Institutional capacity to carry out this magnitude of program. INA, BNF and DESAGRO are limited in their capability to support so extensive a program. These institutions have the capacity to carry out existing programs in a rather limited manner. Even by shifting staff from existing programs into the asentamiento program, their ability to execute on this magnitude would have to be materially strengthened.

Because of the unknowns involved in the variables described above, the base line study called for in the evaluation section is of utmost urgency, and continuing up-dating of it is fundamental, if it is to be expected that practical quantitative limits are to be set on rate of program expansion. It is for these reasons that the program should be initiated on a first stage basis, from which parameters for growth can be established.

B. Activity Description

1. Rationale

Implementation of the GOH Asentamiento Program requires large amounts of credit, management and organization to be applied to a task where experience with problems on that scale is very limited. Therefore, it is recommended, that A.I.D. loan funds assigned to the asentamiento be oriented toward a model program applied to selected asentamientos concentrated in three or four compact areas of the country. In depth, continuing evaluation studies will permit the collection and analysis of data over time from which success and failure elements can be isolated and quantified, and subsequently programmed into the total asentamiento program. In this way, an orderly and sustained development process can be expanded to the indicated practical limits, based on the range of critical limiting factors involved.

As a minimum necessary experience is acquired, and criteria formulated on an objective base, expansion can take place within the limits of restricting critical factors.

2. Project Design

It, therefore, is recommended that A.I.D. loan funds be used for asentamientos selected on the basis of certain criteria and from four compact areas. The project can be expanded, at a rate justified on the basis of evaluation results, and these results can be used for both the broader GOH program and as a guide for the model program as well.

Criteria used for selection of the 40 asentamientos for the model program are as follows:

1. Land potential - at least 50% of the land area of the asentamiento must be of one or more of the following soil classes:
 - a. Type AB: Well-drained, developed over alluvial materials
 - 0-3% slope
 - moderate sub-soil drainage
 - Low erosion potential
 - moderate to high production potential
 - apt for intensive cultivation
 - b. Type VP: Deep soils developed over volcanic materials.
 - 10-30% rolling slope
 - moderate to rapid sub-soil drainage
 - moderate to high erosion potential
 - moderate production potential
 - apt for crops with proper erosion control
 - c. Types AS & AA: Soils developed over alluvial materials, flat to rolling.
 - 1-15% slope
 - rapid to slow sub-soil drainage
 - high to low erosion potential
 - high to low production potential
 - annual and permanent crops; in some cases, parts are apt only for intensive pasture

Additionally, at least 75% of the area of a selected asentamiento had to be free of general flood danger, be cleared of timber, and generally be susceptible to cultivation without major land improvement activities.^{1/}

2. Minimum of 3 hectares of total area.
3. Access roads - Generally, the asentamiento had to be within 5 kilometers of an all weather road, and with dry weather trails to the farm unit that were considered sufficiently drained to permit vehicular access during dry weather periods (after first harvest and second harvest in areas of double cropping).

^{1/} All criteria determinations will be verified by field checks.

4. Group Consolidation

- a) Existence of an elected leadership in accord with IIA regulations.
- b) Had been credit subjects during 1972, if organized prior to April 1, 1973.
- c) In the opinion of IIA or DESAGRO field agents that had contact with the asentamiento, that it acceptor technical advice and assistance, and the GROUP system of working the land.

5. Spatial Location

- a) All are located within four priority regions of the National Development Plan.
- b) Minimum groups of six are within the area of influence of a pole or sub-pole of economic growth as identified in the National Development Plan (at least within 25 Kms. of the pole or sub-pole).

6. Land Tenure

Evidence exists that secure status of the land for the use of the asentamiento will be assured.

The preliminary selection by IIA is as follows:

<u>Regions</u>	<u>No. of asentamientos</u>	<u>Area (mz.)</u>	<u>No. of families</u>	<u>Cultivated area Actual*</u>	<u>Potential</u>	<u>Cultivated Area Per family *</u>
South	11	3,125	613	3,015	3,125	5.1
Northcoast	9	1,716	252	2,375	1,570	9.4
Olancho	9	3,326	260	2,420	3,230	9.3
San Pedro Sula	11	2,287	451	2,778	2,162	6.2
	<u>40</u>	<u>10,454</u>	<u>1,576</u>	<u>11,488</u>	<u>10,027</u>	<u>7.3</u>

* Includes areas where corn and beans are double-cropped.

C. Integrated Development Model for Asentamientos

In order to assure satisfactory development of asentamientos as profitable economic enterprises, and realize objectives of improved incomes and standard of living for the families settled, development plans at the asentamiento level must be prepared. Such plans, in addition to providing necessary information for evaluation purposes, farm management studies, and agricultural planning, will be designed to bring about optimum utilization of available resources on the asentamientos.

An implementation plan will be prepared prior to the first disbursement for an Asentamiento project as follows:

- (1) Obtain information on availability of resources: land, soil quality, water, labor supply (quantity and quality) in settled families, machinery (if any), availability of inputs, and perhaps availability of storage and marketing facilities. An appropriate format and forms will be prepared by the technical (evaluation) unit of OPS in collaboration with the IIA evaluation unit, and considering the suggestions of extension agents responsible for technical assistance to the pilot program asentamientos.
- (2) Prepare budgets for the various crops and livestock activities considered as realistic alternatives for the conditions found

on the asentamientos. These alternatives, of course, must be compatible with the internal resources situation (quality and quantity) for each asentamiento. DESAGPO agent opinions and interviews with leadership and settlers on the asentamientos, will be an important source of information for making a preliminary selection of alternative activities to be considered.

(3) Once an alternative activity set has been selected, and budgets prepared for each (utilizing base line studies, experimental data, expert opinions, etc.), an analysis will be carried out for each asentamiento to determine which activity combinations make best use of resources. Annual farm plans will be prepared using farm budgeting techniques and drawing on the experience of past years by reference to the farm records.

(4) On the basis of the analysis suggested above, the utilization of, and returns to, several variables over time can be estimated:

- Resource use
- Credit demand and use
- Input demand and use
- Profitability expectations
- Cash flows
- Capitalization and profit
- Distribution projections
- Estimates on production and productivity increases

D. Credit Demand for Model Program (Asentamientos)

Credit demand for the Model program for the 1974-78 period only can be estimated with greater precision when results of the base line study and the aggregation of the requirements of the individual asentamiento development plans are completed. Nevertheless, estimates can be made on the basis of the model program asentamiento selection (and preliminary crop and area projections) made by IHA in April, 1974.

Cropping plans for the selected asentamientos, are as shown on Page 19 of this ANNEX (Table A-6).

Based on this crop distribution and the per hectare credit requirements from the budgets in the profitability section, credit demand estimates for 1975-78 have been made.

Per hectare credit requirements are as follows:

Crop	(\$) Credit/Ha.		(\$) Credit/Manzana	
	Rice	219		153
Corn	1st	2nd	90.50	204.50 (Both crops)
Beans	124.00 + 100.50		86.50	155 " "
Grain Sorghum	106		74.00	
Sesame	72.50		50.50	

Demand estimates for short term production credit for 1975 are as shown in Table A-7.

Table A-7 SHORT TERM PRODUCTION CREDIT DEMAND (\$) FOR ^{Model} Model Program ASENTAMIENTOS FOR 1975.

Crops	R E G I O N S			San Pedro Sula	Total Area	Credit/ \$/Mzs.	Short-term Credit Demand
	South	North Coast	Olancho				
Corn (2 crops)	2,020	1,760	1,125	2,148	7,053	204.50	1,442,330
Beans (2 crops)	900		995	15	1,910	155.00	296,050
Rice	315	555	130	495	1,495	153.00	228,735
Sesame	75				75	50.50	3,787
Others	305	60	20	120	505	125.00	63,125
	<u>3,615</u>	<u>2,375</u>	<u>2,270</u>	<u>2,778</u>	<u>11,038</u>		<u>2,034,036</u>

Estimates for 1975 are projected for 1976, 1977 and 1978, assuming an annual expansion of the model program of 20% in financed cultivated areas after the first year. The same crop distribution proportions are maintained for purposes of projection:

Year	Short-term credit demand
1975	2,034,036
1976	2,440,843
1977	2,929,012
1978	3,514,814

Flow of funds needed to satisfy the projected credit demand is shown in Table A-8. A demand for medium term credit has been added, based on 25% of the initial short-term credit demand, plus 25% of incremental demand for each succeeding year. Livestock enterprises (swine, poultry, dairy cattle) and citrus or plantain,

yuca, oil palm crops will be needed to complement the farm plans, use labor and land resources to best advantage and spread out the risk of the farm business. The best information available now indicates investment at about 25% of annual crop plans.

E. Other Requirements for the Model Program

1) Technical Assistance

DESAGRO is charged with providing technical assistance for production to the asentamientos. Adequate technical assistance is an indispensable requirement for a successful program, especially during the first several years. One experienced extension agent can be expected to provide adequate levels of assistance to not more than 6 to 7 asentamientos depending on location considerations. Additionally, each asentamiento would be required to provide for adequate farm record keeping and financial book-keeping. The latter would be at the expense of the asentamiento, the cost of which initially would be included in the production credit received. Standard record procedures will be devised and adopted. Ways and means will be sought to reduce the cost and increase accuracy by cooperative arrangements among asentamientos to contract suitable services.

Table A-8

FUNDS NEEDED TO SATISFY THE CREDIT DEMAND FOR ASENTAMIENTOS IN MODEL PROGRAM (THOUSAND \$), 1975-78.

Years	Roll-over Short-term (1)	Roll-over Medium-term (2)	Total Roll over (3)	Short-term Credit demand (4)	Medium-term Credit Demand (5)	Total Credit Demand (6)	Funds Needed (7)
1975	-	-	-	2034.1	508.5	2542.6	2542.6
1976	1830.7	101.7	1932.4	2440.9	610.2	3051.1	3119.7
1977	2196.7	223.8	2420.5	2929.0	732.3	3661.3	3240.8
1978	2636.1	370.2	3006.3	3514.8	878.7	4393.5	3387.2
Total funds needed						\$. 6289.3	

In the long term, it would be anticipated that asentamiento capitalization and income levels would be sufficient to support contracting of a part or full-time farm manager (Ino. Agrónomo), thereby reducing the relative input of subsidized technical assistance from DESAGRO. In this manner, DESAGRO functions gradually would become specialist backstopping, rather than an active role of taking farm management and production decisions.

Over time, DESAGRO field personnel can be shifted from viable on-going asentamientos to new and/or lesser developed ones.

INA will provide supervisory, control and advisory services to the asentamientos in organization, administration and business management, through their technical staff. This mainly will be a backstopping function for the on-farm person(s) responsible for accounting and farm records. Additionally, INA will deal with all aspects of social development (promoción social) related to the asentamientos.

The Model Program Staffing Requirements Are As Follows:

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
DESAGRO				
Agronomos	7	8	10	12
INA				
Administration	5	6	6	6
Social Development	7	8	10	12

2) Input availability

Model program asentamientos will be adopting intermediate technology for most crops to be grown. This requires availability of improved seeds, fertilizer and pesticides. Adequate supply of inputs will be the function of the inputs division of the BIF. BIF will take whatever steps are necessary to assure priority allocation of supplies to model program asentamientos, and, as necessary, will relocate outlet facilities in order to properly fulfill this responsibility.

Input requirements are projected as follows:

Improved Seed	Unit ^{1/}	1975		1976		1977		1978	
	Prices (\$/M.T.)	(M.T.)	(\$)	(M.T.)	(\$)	(M.T.)	(\$)	(M.T.)	(\$)
Corn	260	77.6	20,176	93.1	24,206	111.7	29,042	134.1	34,866
Beans	325	65.9	21,418	70.1	25,709	94.0	30,343	113.0	37,019
Rice	310	80.1	24,831	96.1	20,791	115.3	35,743	139.4	42,904
Grain Sorghum	660	2.3	1,518	2.8	1,848	3.3	2,178	4.0	2,640
Fertilizers	260	1,438	373,880	1,725.6	448,656	2,070.7	538,392	2,494.0	646,074
Pesticides	550	52	28,600	62.4	34,320	74.0	411,950	89.0	49,445
Total Costs	-	-	470,423	-	564,520	-	677,383	-	812,047

Total BNF net sales in 1972 were \$916,820 and in 1973, \$1,263,192, a 55% increase. With an expected 30% increase in net sales in 1975, (to \$1,648,533) asentamientos purchases, if all from BNF, would constitute approximately 28% of total BNF sales.

3) Adequate Utilization of Internal Labor Supply

Economic success of the asentamientos depends additionally on efficient use of available labor from settled families.

An incentive system and minimum standards must be developed for labor inputs on the asentamientos. Perhaps a piece-work basis can be developed for each production activity, to obtain work-day (jornal-día) equivalents.

Supervision, and creation of a conscientious attitude, will be a basic requirement for success as an agricultural enterprise. INA has the prime responsibility in this area.

4) Availability of marketing channels

The BNF, in coordination with INA, is required to provide necessary storage and marketing facilities for basic grains production on model program asentamientos.

Further details on market analysis are to be found in Section III, B-2. The analysis shows that access to markets is expected to be satisfactory, and is not now a serious constraint.

^{1/} Unit prices are based on estimates for April 1, 1974. Although unit prices are expected to increase during the project period, no reliable basis exists for projecting such increases.

FORM 4-6

SELECTED ASIENTANEROS

PROJECTED CROPS PLANT FOR 1975

OTHERS

	Total Area	Potential arable area	Crops		Area to be planted	Corn 1975	Beans 1975	Rice	Soybeans	OTHERS		Number of families
			Permanent	Annual						Cotton	Sorghum, yuca, Watermelon, radish, Plantain	
SOUTH REGION												
1. El Hornojal	350	315	45	170	140	110	70	80	---	---	---	76
2. Yoralpa	450	450	370	180	350	100	60	---	---	100 sorghum	150	50
3. Las Coloradas	350	350	---	350	350	350	---	---	---	---	---	60
4. La Cofeolita	150	150	---	150	100	120	---	40	---	---watermelon	70	34
5. El Aserradero y Las Pampas	400	400	125	275	425	240	140	---	75	---	---	55
6. El Chapulte	300	300	105	95	150	50	40	50	---	---	---	50
7. El Linda	250	200	---	200	200	200	---	---	---	---	---	65
8. Chitapa	100	100	---	100	150	100	---	45	---	---	5	23
9. Los Huequenas	450	450	Part. 100	350	350	240	240	---	---	--- sorghum	150	100
10. El Cango La Florida (El Triunfo)	350	350	70	330	340	100	40	50	---	100	---	35
11. El Cango (El Triunfo)	400	450	---	450	850	410	270	50	---	100	---	81
	3,170	3,125	645	2,440	3,515	2,070	900	315	75	300	305	613
NORTH COAST (Coahuila)												
12. El Tepetitl	350	350	250 ^{b)}	210	470	340	---	40	---	---	---	17
13. El Juana (Trancosa)	351	270	270 ^{c)}	250	350	---	---	250	---	---	---	39
14. La Pictomera	143	100	1	99	130	100	---	30	---	---	---	14
15. San Juan Roque (Victoria)	150	150	130 ^{b)}	130	130	80	---	50	---	---	---	19
16. La Unión	300	300	300	300	550	450	---	50	---	---yuca	50	35
17. El Naranjal (Moctra)	55	65	---	65	120	110	---	---	---	---watermelon	10	18
18. El Nueve, Tala	80	80	---	80	140	120	---	20	---	---	---	19
19. El Sueño	295	295	---	295	455	400	---	95	---	---	---	84
20. Jutiapa	80	80	80 ^{b)}	80	140	120	---	20	---	---	---	12
	1,714	1,570	1,030	1,529	2,325	1,760	---	555	---	---	60	252
REGION GUAYMAS												
21. Potosillo	100	100	---	100	140	80	60	---	---	---	---	12
22. San Nicolás	100	100	Part. 45	55	80	35	25	50	---	---	---	15
23. San Marcos de Jutiquilla	376	230	---	230	330	220	140	---	---	70	---	28
24. San Roque Jutiquilla	150	150	---	150	270	150	120	---	---	---	---	28
25. Nueva Palestina (Rfo Gómez) ^{b)}	1,400	1,400 ^{c)}	Part. 90	190	510	140	100	50	---	---	20	80
26. Plan de Torción	500	500	Part. 200	300	600	350	250	---	---	---	---	27
27. La Corta (Quarisma)	250	250	Part. 150	100	200	100	100	---	---	---	---	12
28. Santa Elena (Jutiquilla)	300	300	Part. 150	150	250	100	100	50	---	---	---	18
29. Santa Cruz del Pozo	200	200	Part. 60	140	240	60	100	---	---	80	---	40
	3,324	3,230	675	1,435	2,420	1,125	555	130	---	150	20	260
REGION NOROCCIDENTAL, SAN PABLO SULA												
30. La Solita	100	100	35	65	105	80	---	25	---	---	---	22
31. Waller	300	300	Citrus 150	150	300	300	---	---	---	---	---	70
32. Yiculista	150	150	---	150	300	300	---	---	---	---	---	50
33. El Aguacate	150	150	---	150	270	140	---	80	---	---	---	36
34. Las Flores	363	348	175	173	225	108	15	18	---	---(Yuca)	100	33
35. Lucán	250	200	---	200	100	---	---	100	---	---	---	29
36. Urcua Norte	215	215	---	215	430	430	---	---	---	---	---	32
37. La 36 (La Dalán)	153	153	---	153	246	246	---	---	---	---(Plantain)	70	54
38. La Compa	300	300	---	300	450	300	---	150	---	---	---	65
39. La Llorada	104	104	---	104	162	112	---	50	---	---	---	30
40. El Ahito	200	160	---	160	200	120	---	80	---	---	---	30
	2,287	2,167	360	1,827	2,778	2,168	15	495	---	---	120	531
	10,499	10,087	2,730	7,174	11,488	7,053	1,910	1,495	75	450	505	1,574
RESUMEN												
South Region	3,170	3,125	645	2,340	3,515	2,070	900	315	75	300	305	613
North Coast (La Ciba)	1,714	1,570	1,030	1,529	2,325	1,760	---	555	---	---	60	252
Region Olancho	3,324	3,230	675	1,435	2,420	1,125	555	130	---	150	20	260
Region Occidente (So. P. Sula)	2,287	2,167	360	1,827	2,778	2,168	15	495	---	---	120	531
	10,499	10,087	2,730	7,174	11,488	7,053	1,910	1,495	75	450	505	1,574

1) Criteria selection (1) Top quality (cobesion, organization, etc), (2) land quality (3) Access of Asientaneros to principal highway and (4) Land-family ratio.
 a) Will change to permanent crops (grapefruit and plantain) in 1975.
 b) Needs a 60 kilometer road which could provide access for production to 7,000 etc. of adjacent land.
 c) Area arable in 4-5 yrs, needs clearing.

ANNEX I
Exhibit C

H O N D U R A S

C O O P E R A T I V E O R G A N I Z A T I O N S

A N D

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HONDURAS
COOPERATIVE ORGANIZATIONS AND THE ECONOMIC DEVELOPMENT
OF SMALL FARMERS

With the growth of asentamientos there are now in Honduras somewhere between 150,000 and 200,000 small farmers who are farming either singly or communally on sufficient land to have commercial production. There is no means by which all or the greatest part of these farmers can be reached by effective programs on a one by one basis. The emphasis must be placed upon working with small farmers as groups. Whether such groups are formally denominated or legally organized as "cooperatives" is less important than that they be organized as effective mechanisms, with adequate internal organization and external support, to assist the small farmer and to bring forth the best efforts of the farmers for self-assistance. For purposes of convenience the term "cooperative organization" will be used in this chapter to refer generally to organized farmer groups and federations or other second-degree organizations sponsoring or servicing such groups.

I. GROWTH AND SCOPE OF COOPERATISM IN HONDURAS

A. An Overview

Cooperatives and cooperative type organizations have become a popular form of association in Honduras, and the cooperative movement has been growing rapidly. The following is the record of growth of cooperatives with legal personality under the cooperative law:

Cooperatives:	<u>1964</u>	<u>1969</u>	<u>1972</u>
Number	43	171	250
No. members	7,000	28,100	38,870
Capital (Lemp.)	1,033,000	n.a.	24,555,000
Assets (Lemp.)	6,904,632	22,292,000	39,445,000
Federations:			
Number	n.a.	5	4
Capital (Lemp.)	n.a.	304,000	1,254,000
Assets (Lemp.)	n.a.	2,137,000	16,820,000

Source: Fomento Cooperativo

These figures, however, do not tell the whole story. They do not include 60 cooperatives that failed to file 1972 reports, pre-cooperatives, or cooperatives organized since 1972; partial data suggests that these categories cannot account for much less than another 10,000

cooperatives. Two new cooperative federations have also been given legal status since 1972 (for INA land reform cooperatives and sugar cane cooperatives, respectively). Further, the labor and campesino union associated cooperatives, operating under labor legislation, have 10,000 additional members. The Fundación Hondureña de Desarrollo, though not a cooperative, finances consumer cooperatives and informal farmer groups; it claims to be serving more than 15,000 families in 1973. Finally, it has already been mentioned in another chapter that 373 asentamientos have been formed with a claimed 10,000 families; though lacking in legal status, they are functionally cooperatives. In total, therefore the cooperative movement in Honduras, broadly defined, covers some 90,000 families. Even allowing for duplications and the probability that a quarter or so of this membership is inactive, the cooperative movement still touches about one in ten families in the country.

Drawing on all sources of information, the current size and composition of the cooperative and quasi-cooperative movement in agricultural production can be presented as follows:

1. Land Resettlement Cooperatives and Pre-Cooperatives formed by INA (Government agrarian reform agency) and mainly associated with FECORAH (Federación de Cooperativas Agronecuarías de Honduras).	No. Coops or Groups	No. of Members
2. Asentamientos formed by INA (no legal coop status; not affiliated with federation) <u>1/</u>	373	15,293
3. Federación de Asociaciones Cooperativas de Ahorro y Crédito de Honduras (FACACH - Credit Union Federation) <u>2/</u>	60	2,300
4. COHACAL (Plan Cooperativa Nacional Campesino, Ltda. of Asociación Nacional de Campesinos Hondureños) (ANACH)	5	1,500
5. FECONCAL (Coffee grower coops) <u>3/</u>	20	2,839

1/ There is a high attrition rate in these projects in that a good proportion of asentamientos quickly fail and many members of the survivors leave; however, new asentamientos are being continually formed.

2/ Figures shown are for coops outside Tegucigalpa and San Pedro Sula and for the 28% of credit union members reported to be primarily farmers by occupation.

3/ Average sales of coffee per member of less than 2250 Lempiras annually suggests a large percentage of small farmer members.

	No. Coops or Groups	No. of Members
6. Other federations and independent cooperatives (cotton, sugar cane, and miscellaneous)	10 est.	1,000 est.
7. FECOAGROH (Federación de Cooperativas Agrícolas de Honduras - formerly AID supported, now assisted by FOMENTO COOPERATIVO) <u>4/</u>	32	3,000
8. Farmer groups affiliated with Coordinación para el Desarrollo (CONCORDE) served by Acción Cultural Popular Hondureña (ACPH) and Fundación Hondureña de Desarrollo (FUNDHESA) <u>5/</u>	100	3,000
Totals	<u>706</u>	<u>37,554</u>

Each of these groups (except 5 and 6) is described in Appendix X. The Appendix also includes a description of Dirección de Fomento Cooperativo (Directorate of Cooperative Development), the Government agency responsible for encouragement, legalization and control of cooperatives in the country.

B. Analysis of Agriculture Cooperative Organization Activities and Plans

(1) Small Groups at the Bottom

A great deal is being done or planned in Honduras to organize farmer groups at the village level. These groups tend to be small. While in some cases they reach 100 or even 200 in number, they often range downward to as few as 10. A median would probably be somewhere between 30 or 40; and this is about equally true of communal farming groups and of independent farmers. There are several reasons for this. One is that the small farm population in a given area will be divided between a number of groups -- coffee grower, sugar cane, cotton or other specialized coops, communal farm coops, general purpose agricultural coops and credit unions, according to differences in economic status and nature of the farming activity. A corollary is that many cooperative organizers have only a limited range of services and selectivity

4/ A substantial portion of these coops are currently inactive.

5/ Includes some small groups assisted by FUNDHESA outside the ACPH Program for agricultural promotion.

in the types of farmers they organize; and for many farmers none of these locally available ~~has~~ an appealing or appropriate program. Another contributant to small group size is that it has not generally appeared practicable to organize groups of much more than 100 (and this only in rare cases) for communal farming. This is partly a problem of control but also the size and character of available tracts of land are a restriction. Decree Law No. 8 permits groups of as few as 12 farmers to be organized as asentamientos. Finally, there is an important socio-geographical factor: farmers tend to be fairly scattered and, lacking in transport, not to be organizable into basic units covering sufficient territory to form large groups that can get to a single meeting place.

This problem of smallness of group size has been historically a frustrating factor in organization of small farmer groups in Honduras. The credit union movement considerably overorganized in the rural areas, and has been years in the process of consolidating and eliminating unviable units. The FECOAGRON federation set out to organize cooperatives of 300 members and did at one point reach 140; much of its problem was the burden of working with numerous scattered small groups.

INA uses the full scale system of organizing cooperatives with legal personality for each of its land resettlement groups though they average scarcely 30 members in size.

FOMENTO COOPERATIVO points out the impracticability of applying its cooperative inspection and auditing functions to large numbers of widely scattered cooperative units.

From this experience there are three principles that AID should bear in mind in considering loans relating to the organization and support of local farmer groups:

First, money will be poorly spent if dedicated to the over-organization of small village level cooperatives with legal personality.

Second, organizers of cooperative groups should place emphasis on developing effective programs in specific areas of concentration rather than on scattered efforts.

Third, there is a need for the development of more effective techniques, forms of legal organization, regional centering of accounting, simplification of forms, etc. to make the small groups more effective in the context of larger systems above the group level.

(2) Many Sponsoring Organizations; many plans

The Honduran farmer cooperative movement has no unified organization. There is no lack, however, of cooperative federations and other organizations dedicated in one way or another to organizing and servicing the small farmer. It is a growing business in which each participating organization has its distinctive philosophy, a variety of plans, and in most cases hopes of stronger financing.

CONCORDE with its Agricultural Promotion Plan (ACPP operated, FUNDHESA financed) is the most ambitious. It envisions the organization of large networks of groups with up to 6000 members per region, possibly reaching 30,000 over five regions, involved in a program which is complete with technical assistance, credit, and marketing/input services.

FACACHI, although also a CONCORDE member, has devised its own smaller independent program to organize groups with combined technical assistance and credit support, though marketing/input plans appear lacking.

CONACAL, ANACH's National Campesino Association cooperative plan, has used an unitary cooperative form to serve a substantial number of local groups. It has an effective tie-in with DESAGRO (extension service) to provide technical assistance and does undertake some good marketing and input supply functions within its limited capacities. In complete contrast to CONCORDE and FACACHI, CONACAL wants to grow slowly. Its primary demand for capital is for long-term development purposes rather than annual production credit to support expansion in number of groups served. CONACAL wants to be sure not to take on more groups than it can serve effectively at one time; it also prefers an independent course to any broad association with other cooperative organizations.

INA has worked out a viable strategy for its land resettlement groups. These have been carefully nurtured and are organized as full legal cooperatives; the development cost per capita for the 2,800 participants who have stayed with the projects has been high. But INA has not elaborated a system sufficiently simple to apply to asentamientos which for all functional purposes are identical to the land resettlement cooperatives and have identical needs. The asentamientos function even without simplified forms for record keeping. Further INA's approach to marketing appears to have been spotty. It has been production project oriented, as in the case of melons, but has not succeeded in putting production and marketing requirements together.

FECORAH has been organized as a Federation of the INA land resettlement cooperatives. It has a number of specific projects under consideration - some involving marketing, others production; the things it will undertake presumably depend on the whims of donors and lenders as to what they are interested in putting money out for rather than any overall concept of what FECORAH, now that it has been created, should do. It is not clear where or when INA's services leave off and FECORAH's should begin. Meanwhile, the new asentamientos remain in an ambiguous state not belonging to any cooperative movement, but being jointly guided by INA and DESAGRO.

IIIA is now proposing to organize a new type of farm group ("sociedades") for farmers who have individual farms rather than participants in communal farms. This system is primarily intended for use in the Aguán Zone, where financing is provided by BIF under a BID loan. The new type of "sociedad" will have juridical personality. The "sociedad" will borrow money in common and provide a medium for provision of technical assistance. It is expected to distribute credit among its members and collect for repayment, to market production of members, and to distribute inputs to them. The sociedades are conceived to be formed of about 50 farmers, each group to be served by an agronomist and each five groups by an IIIA promoter and a BIF credit supervisor. The executive committee of each society is supposed to prepare the farm plan of the group and of each member with the advice of the agronomist. This plan appears to be designed to serve the needs of a particular project; there is no evident intent to establish the societies as cooperatives (though their functions are identical to cooperatives) or to link them to any national cooperative organizations.

FOMENTO COOPERATIVO does what it can to help isolated small farmer cooperatives (including those of FECCOAGROH) throughout the country; it perceives the need for a broader strategy to organize and serve small farmers but lacks resources to do so even on a pilot region basis.

Finally, there are a number of independent cooperatives in the country who could benefit through some broader cooperative affiliations to amplify their services. Nonetheless some, such as the cotton cooperative in the South (which incidentally does buy from and render some good technical assistance to asentamiento producers), appear to function with considerable effectiveness.

While, therefore, all the organizations involved in developing small farmer groups and facilities to serve them are becoming increasingly perceptive of the need for more effective strategies, each views problems from its own limited perspective. The sum total

of their individual actions, plans and aspirations does not add up to a plan of cooperative development (or to put it more modestly, a pattern) that adequately services the national interest of Honduras or of small farmers generally.

There is, of course, much merit in the idea of encouraging the various groups to compete in the development of what hopefully will be increasingly better programs. Pluralistic approaches are healthy. On the other hand, coordination of organizations and groups working toward common goals can also be very desirable, and this seems to be largely lacking in Honduras. The small farmers at the bottom do, in the aggregate, have great potential productive, purchasing and market power. If services for them are organized intelligently with adequate economies of scale, small farmers should be able to produce better, buy their inputs cheaper, and sell on terms that will leave them with higher standards of living and greater future opportunities.

A second problem with lack of coordination is that the money the various groups spend comes from GOH, RIF and international agencies (Government and private) such as AID. Such agencies have to decide where, how and with whom the grant and loan funds they provide are to be spent. This means at the least setting some rules for the competition, trying to identify priority needs, and taking care not to spend all resources on the same things while other needs are unattended. At best it requires also some measure of vision as to how various programs might ultimately evolve into a coherent system that will serve the next generation of Honduran small farmers.

C. Prospects for Development of Cooperative Confederation and Special Purpose Cooperative Institutions

Thus far the cooperative movement of Honduras lacks a confederation or specialized institutions such as a cooperative bank, which are eventually achieved in many countries when cooperativism becomes strong and reaches toward maturity. The highest level of organization at present are the respective federations, of which four of seven are agricultural.

The Honduran cooperative movement, however, is moving toward the development of centralized organizations which combine the federations and non-federated elements of the movement for purposes of broad mutual advantage. 1/ There exists a National Committee of Cooperative Integration established by the Sixth National Congress of Cooperatives of Honduras by a resolution passed on July 15, 1972. This committee is charged with preparing the constitution of the

1/ Exclusive of the labor union and ANACI-sponsored cooperatives.

Honduran Confederation of Cooperatives (Confederación Hondureña de Cooperativas). The committee is composed of the directors of the federations and a director of a cooperative named by the non-federated cooperatives.

The Sixth Congress also passed a resolution instructing the National Committee of Cooperative Integration to study the organization of an Institute of Cooperative Research and Education (Instituto de Investigación y Educación Cooperativa) which is to function under the supervision of the National Committee, pending establishment of a Confederation. The Committee has prepared a plan for the organization for presentation to the Seventh Congress in July 1974. The objects of the Institute would be essentially as follows:

Education

The Institute would seek to achieve better education for the cooperative movement by better utilization of human and economic resources. It would give or sponsor courses in cooperative doctrine, leadership and techniques of administration.

Research

The Institute would seek to meet the needs of cooperatives for studies and services such as accounting and institutional development. Ultimately it would seek to elaborate cooperative models appropriate for the country.

The Institute would be organized with an initial annual budget of 118,000 Lempiras to be met by donations, contributions of federations, and fees for courses and services. It is understood that some support is expected from a German foundation.

Some thought has also been given in Honduras to the ultimate establishment of a Cooperative Bank. This might be carried out either as an independent development or as a merger of the cooperative development functions of Fomento Cooperativo (the government cooperative promotion and regulatory agency) into a complete cooperative development organization on the model of INFOCOOP in Costa Rica. ^{1/} In this connection it has been suggested that the cooperative window of the BIF would form the nucleus of a cooperative bank. Some distinction, however, can be drawn between the functions of the cooperative window of Honduras' BIF as it now exists and Costa Rica's INFOCOOP.

- ^{1/} INFOCOOP is controlled by the cooperative movement but also has Government representation.

First, the Honduran BIF cooperative window finances mainly short-term annual production credit while INFOCOOP is essentially a development bank engaged in making long-term loans and investments.

Costa Rican cooperatives and their members, of course, have wide access to commercial banks for working capital and annual agricultural production credit.

Second, much of BIF's lending to small farmer groups is for Government organized land reform cooperatives and asentamientos; INFOCOOP at last report would not lend to the Government land reform coops at all, regarding them neither as true cooperatives nor good credit risks. 1/

It would appear premature to judge the future at this point as to what will or ought to be the scope of a Honduran cooperative bank until the patterns of cooperative development and agricultural credit are more clearly established. A crucial point, of course, is the extent to which a cooperative bank controlled largely by representatives of more prosperous cooperatives will give priority attention to the requirements of small farmers whose needs are greatest and are the particular concern of AID agricultural sector loans.

D. Cooperative Window of BIF

1. Description

The "cooperative window" of the Banco Nacional de Fomento (National Development Bank) is a term applied to special funds provided for loans to cooperatives and similar organizations. It has recently been formalized as "La Oficina de Coordinación de Asociaciones Cooperativas y Campesinas". While there is an officer in charge of the window, he has no assistants other than secretarial and primarily functions as a coordinator with respect to the special funds. Applications for loans are made and processed through the Central Office and branches of BIF in essentially the same channels as other loans.

Table 1 presents an analysis of the activity of the funds during 1973.

1/ Other distinctions are that all of the cooperative window borrowers are agricultural except for one salt cooperative, while INFOCOOP's are more diversified; further the cooperative window makes a significant number of loans to non-cooperative plantations and cattle ranchers' associations.

Table 1 Record of Loans Granted and Utilized

CIF Cooperative Window, 1973

(Amounts in Lempiras)

	<u>Totals 1/</u>	<u>Cooperative Fund 2/</u>	<u>I/A Pre-Cooperative Fund</u>	<u>Asentacion-to Fund</u>	<u>MACU Fund</u>
No. of Loans	1,093	106	57	70	00
Amounts approved	16,623,001	11,985,247	210,570	2,644,674	1,073,000
Amounts utilized	10,650,348	8,737,215	323,745	602,264	222,424
Amounts past due 3/	1,322,306	1,107,877	9,042	91,679	113,800
Amounts recuperated 3/	2,340,017	2,045,152	60,108	76,086	157,681
Amounts renewed	325,912	670,185	73,185	73,542	--
Amounts delinquent 4/	471,913	390,204	25,825	508	65,375

Source: CIF statement, April 24, 1974 "Distribución y Resultados del Crédito Institucional otorgado a Pequeños Agricultores al 31 de Diciembre de 1973", supplemented by other data.

- 1/ Total excludes 1,129,330 lempiras of funds for I/A cooperatives from a BID loan. Total is also understated for reason set forth in footnote 2.
- 2/ Believed incomplete owing to difficulties in segregating cooperative from other loans; also because of time delay between approval of a loan and setting up on books.
- 3/ Includes loans due that were utilized before 1973.
- 4/ Quotas past due on loans not yet wholly due.

A further breakdown of the principal "cooperative fund" according to type of cooperative is as follows:

INA land resettlement coops ^{1/}	L. 2,592,066	13.5%
Coffee Coops (FEHOCAL)	4,279,364	22.3
Sugar Coops (FEHACOCAL)	1,451,600	7.6
Cotton Cooperative	7,062,600	36.2
Salt Cooperative	450,000	2.4
Small independent coops	33,300	.2
Private plantations and livestock associations	2,139,066	11.2
Unidentified	1,140,274	6.0
Total	19,156,176	100.0%

As these figures show, the cooperative window has had no action for small farmer cooperatives aside from the Government-organized INA land resettlement cooperatives. The fund for INA pre-cooperatives (see Table 1) is in reality an extension of the cooperative fund; the distinction is that the INA pre-coops are not yet legally established entities.

The fund for AVACH (CONIACAL) is the only fund that has been used significantly for small farmer groups not organized by the Government. Of the amount approved in 1973, Lempiras 500,000 was for a special long-term use project.

The asentamiento fund, also known as the agrarian fund, is variously regarded as a part of the cooperative window and a special case of its own. Ultimately, of course, it is assumed the asentamientos will take some type of cooperative form.

AID has recently made a sum of \$744,000 (1,488,000 lempiras) available to BIF for the cooperative window. This fund is being treated in a special manner. It is anticipated that the BIF will provide 1,000,000 lempiras to FUNDIFESA and the balance to FACACU to provide loans under their new programs of organizing small farmer groups. They will, therefore, constitute special funds somewhat analogous to the AVACH fund though responsibility for repayment will presumably rest with the borrowers rather than the underlying groups. There appear to be no definitive plans for

^{1/} Some INA coops also have funds from other sources. For example, the most prosperous INA coop (Guanchias, a banana cooperative of 126 members and 751 hectares) was reported to have liabilities of 1,573,200 lempiras in 1972 (which must represent mainly loans from non-BIF sources as it had no loans from BIF in 1973) according to tabulations of BIF's controller. Some INA coops also receive credit from BIF from a BIF loan.

the utilization of other BIF or GOH funds for analogous purposes although there are indications of growing interest in this direction.

Proposed lending from the cooperative fund by crops has been projected as follows for the coming years:

	1973 ^{1/}	1974	1975	1976	1977	1978
Cotton	7.4	10.0	11.0	11.5	12.0	12.0
Bananas	2.7	2.5	2.5	3.0	3.5	4.0
Sugar cane	1.7	3.8	4.8	6.0	5.5	7.5
Coffee	4.3	5.0	5.5	5.5	5.5	6.0
Grains and diverse	2.0	6.7	9.2	9.5	9.5	9.75
Totals	13.1 ^{2/}	26.2	30.0	34.2	36.0	38.25

^{1/} Actual amounts granted according to BIF controller's figures.

^{2/} Excluding unidentified amounts shown on page 11.

Source: BIF.

While most loans are for annual production purposes, some proportion is for capital improvements and equipment. The figures may be taken more as forecasts of the crops with respect to which money will be lent than as intentions to direct credit toward specific crops. The grain and diverse crop figures presumably reflect, however, expectations arising from PIF's new grain pricing policy that more cooperatives will plant more grain or seek credit for greater use of fertilizers and other inputs for them. Sugar cane and cotton are a relatively profitable crop that many cooperatives would like to grow--together with bananas if world market prices would improve.

2. Cooperative Window Policies

The policies of the Cooperative Window have recently been set forth in a document dated May 7, 1974 (See Appendix XI). Briefly these policies are the following:

1. Loans will be given for economic strengthening of cooperatives, and it will be Bank policy to channel an increasing amount of credit through cooperatives and other forms of rural organizations for the benefit of small producers.

2. To reduce costs and make lending more efficient, increasing amounts will be granted to cooperatives that grant su-

loans on just conditions:

3. Loans to cooperatives that incur substantial losses prejudicial to BIF will not be permitted.

4. Applications will be received for loans for agriculture, livestock, forestry, fishing and mineral production, processing or marketing of these products; and machinery, equipment and land improvements related thereto, including rural housing.

5. Applicants must have adequate administration; credit can be granted in part in appropriate cases to hire a manager.

6. Interest and other terms can be set on preferential terms and borrowers permitted points on re-lending to members.

7. Loans will not be given to borrowers in default except in connection with refinancing when delinquency was not the fault of the borrower.

8. Borrowers must to the extent possible conduct their banking operations with BIF.

9. The cooperative window will coordinate with cooperative federations; cooperatives and campesino and other organizations on all matters relating to credit.

10. The cooperative window will advise cooperatives and other organizations on the best ways to present their applications for rapid attention and assist them in the solution of credit problems they have with the bank.

11. The cooperative window will recommend to BIF policies that it considers necessary for facilitating the channeling of credit to cooperatives and similar associations.

12. The cooperative window will endeavor to arrange for public or private organizations to give technical and administrative assistance to cooperatives and other farmer associations.

3. Organization of Cooperative Window

The cooperative window consists at present of one officer with the following functions:

1. Provide guidance on important or unusual cases to the Credit Division of the BIF and its branches.

2. Give advice to cooperatives and other organizations on loan applications and other problems.
3. Maintain a record on borrowing cooperatives and their loan record.
4. Require periodic reports from borrowers on results of projects financed and on their economic results and compile statistics thereon.
5. Prepare the annual budget of the window.
6. Collaborate with the technical division of the BIF in developing the credit plan (Plan Crediticio) for cooperative and other associations.
7. Report quarterly to BNF's Division of Credit and Operations on activities of the window.
8. Make semi-annual evaluations and recommendations on window operations.
9. Collaborate on actions of the BNF tending to obtain additional resources for financing cooperatives and other organizations.
10. Participate in cooperative training programs.

Pending the further development of the office, the receiving, examination and evaluation of applications for credit will be performed by the regular credit departments of the bank and its branches.

At the present time the greatest handicap to the preparation and implementation of annual credit plans for cooperatives in terms of priority of need is the lack of statistical data. It is not now possible to obtain complete statistics on outstanding loans; to know how much has been extended to each class of cooperative; to know what the total sizes of the funds are; or how much is annual production credit or medium or longer term; how much is delinquent and for what period and why; what loans have been denied or why or by what types of cooperatives they were presented; or how rapidly funds will be recouped by periods for relending. In large measure this is because the bank has not maintained records in a way that permits easy separation of information on cooperative loans from other loans extended by the bank.

4. Priority Needs of the Cooperative Window

In order to discharge its functions effectively, the following would appear to be the priority needs of the window:

(a) More precise definition of the scope of the cooperative window functions:

The window should comprehend all lending activities for cooperatives and other associations of farmers which are not for profit and are not associations of private investors and employers. This logically means including the asentamiento fund as the asentamientos are cooperative-type associations and their future lies in association with one or more kinds of broader cooperative organization. It also means transferring elsewhere responsibility for corporations and other borrowers that are not cooperatives or cooperative type groups.

(b) Management Information System:

A system must be installed by which the cooperative window will have adequate information on all loans for operational, evaluation and program planning purposes. This must include statistics which will reveal such information as amounts lent to the following and their status:

- i) Asentamiento pilot projects
- ii) Other asentamientos
- iii) Cooperatives and pre-cooperatives with loans guaranteed by IIA.
- iv) AVACH (COIACAL)
- v) FUIDHESA
- vi) FACACH
- vii) COAGROH Cooperatives
- viii) Coffee cooperatives
- ix) Sugar cooperatives
- x) Other agricultural cooperatives
- xi) Agricultural processing and marketing cooperatives
- xii) Fishing cooperatives
- xiii) Forestry cooperatives
- xiv) Mineral and miscellaneous cooperatives

For each of the above categories there should be periodic reports showing:

- a) Amounts of loans requested.
- b) Amounts granted, pending and rejected.
- c) Analysis of loans by terms and purposes (short term annual production, short-term marketing, other short term, medium term by major purpose, long term by major purpose).
- d) Schedule of repayments showing amounts to be available by time period for re-lending.
- e) Delinquencies according to age and prospects of recovery.
- f) Loans written off.

(c) Establishment of more specific lending policies and priorities with respect to various categories of loans.

Some more specific policies should be considered with respect to the treatment of various categories of borrowers. For example, should IIA-sponsored cooperatives receive all the credit IIA approves and guarantees for them and SNF play an essentially passive role? Or should there be some limitation to husband funds and achieve equity for another groups? What should be the policy for coffee coops? Should there be lending to this seasoned group at all? Or should RIF work toward transferring them to reliance on commercial banks or other institutions so that it can free its funds for other development purposes rather than straight commercial financing? What kind of uniformity (or equitable relationship) of terms and allocation of credit should be maintained as among organizations such as AMACH, FUNDHESA and FACACH? What guidelines should be given to field offices? What types of loans (as to amounts, category of borrower, purpose, etc.) can be acted on simply and expeditiously under guidelines and which require special treatment? What type of cases must be referred to the coop window for review or for negotiation? How should forms and procedures be simplified for the benefit of small cooperative borrowers without sacrifice of effective control? All of these matters should be the subject of careful study by the cooperative window as soon as its staff is augmented to make it feasible.

(d) Coordination with Cooperative Organizations

There needs to be established an advisory committee to the cooperative window which would meet several times a year. This should include representatives of organizations primarily concerned with its credit program, such as:

Confederation of Honduran Cooperatives (when established;
meanwhile, the National Committee on Cooperative
Integration).

ANIACH (CONIACAL)
FUNDHESA
FECORAH
FECOAGROH
FECOMICAL
FACACH
IHA
FOMENTO COOPERATIVO
DESAGRO
COCO Secretariat

The purpose of this group should be to provide views for the development of annual credit plans; to contribute to evaluation of results; and to discuss both proposals and grievances. One point that is likely to be raised is that credit is sometimes so short that groups have insufficient time to market their products advantageously. Conversely, the meetings would provide BNF an opportunity to explain its purposes and policies and to emphasize the need for borrower responsibility in achieving optimal use of funds and improving records of repayment. The group would also provide a forum through which long-term cooperative development plans and associated credit requirements could be discussed together.

5. Preparation of Annual Plans

With the management information described above and the advice of the advisory group suggested, the cooperative window should be in a position to develop strategies and annual plans (including estimates of funds needed and how they are to be used) to present to BNF management for approval.

(e) Manpower Requirements

The taking of the above steps will require some enlargement of the staff of the cooperative window. The extent of additional manpower needs depends of course on the volume of non-routine activity. Much depends on such matters as to whether and when the bank might begin to play a larger role in taking over from IHA the function of assisting IHA cooperatives and asentamientos with their credit applications. Much of the work of developing management information, of course, will fall on the BNF's controller department. For the present it would appear desirable that the window's staff be increased from one to three (with two involved primarily in lending

policy and loan negotiation and the third primarily in reports, statistics and evaluation). AID could usefully provide some technical assistance in the organization of the cooperative window and expansion of its functions and with the controller of BNF in developing segregated and informative data on the cooperative window's funds.

The expense of establishing separate cooperative offices in the branches of BNF would not appear warranted at the present time. One official of each branch, however, should be designated as the office responsible for cooperative loans, and there should be periodic meetings of such officers with the cooperative window staff in Tequicigalpa to insure mutual understanding and coordination of effort between the cooperative window and field staff.

6. Future Evolution of Cooperative Window

Over the course of time it may be desirable for the cooperative window to evolve into a more autonomous office and perhaps ultimately into a cooperative development bank. This has been discussed elsewhere in this paper. For the immediate future, the segregation of the cooperative program from other activities of the BNF envisaged above, together with the use of an advisory group that might be similar in composition to the board of a cooperative bank, would be a major step consistent with the range of options open for the future.

II. ROLE OF COOPERATIVE ORGANIZATION IN ASSISTING SMALL FARMERS

The role cooperative organizations can play in the economic development of Honduran small farmers, whether they farm individually or communally, can be conceived as threefold:

A. Annual Production

To help small farmers to achieve higher annual production and net income. This essentially involves the provision of a credit/technical assistance package.

B. Marketing/Inout Supply

To further assist small farmers to increase their annual income by improving facilities for purchasing inputs and marketing products.

C. Capital Development

To assist small farmers to expand or structurally change their farming operations in such a way that they can move upward on the income scale.

A. Annual Production (Credit and technical assistance package)

Credit and technical assistance should flow together with technical assistance playing the dual role of helping the farmer and protecting the credit agency. Cooperative organizations in Honduras accept this relationship.

The IIA land reform coops receive technical assistance from IIA agronomists and credit from PIF. There is a system of developing farm plans and borrowing against them. Most IIA coops are now "seasoned" and all members have received some training. The PIF provides no technical assistance but it maintains figures showing costs of production of various crops according to amounts of labor, fertilizers and other inputs. These are used as a guide in determining the amount of credit to approve. The form utilized by IIA and DESAGRO for developing a farm plan for asentamientos and calculating credit requirements is presented as Table 2.

The system is to borrow not only for inputs that have to be bought outside but also for wages paid to the members. Some incentives might be appropriate for the more prosperous IIA coops to capitalize to cover a greater part of working capital needs.

TABLE 2

NOMBRE	
LUGAR	
MUNICIPIO	
DEPARTAMENTO	

INFORME PRELIMINAR
PLAN DE PRODUCCION
PRIMAVERA 1974

INFORMANTE	
ENCUESTADOR	
FECHA.	

CULTIVOS	RENDIMIENTO COSECHA ANTERIOR. (qq MANZANAS)	PLAN DE PRODUCCION PRIMAVERA 1974			NECESIDADES DE SEMILLAS LBS.		USO DE INSUMOS		CREDITO NECESARIO PARA EL PLAN DE PRODUCCION	NO ESCRIBIR EN ESTA COLUMNA.
		AREA A SEMBRAR (MANZANAS)	RENDIMIENTO ESPERADO (qq/MANZANA)	NO ESCRIBIR EN ESTA COLUMNA.	CANTIDAD TOTAL	% DE SEMILLA PROPIA	FERTILIZANTES	INSECTICIDAS.		
CAZ										
URCZ										
FRUJOS										
ALGODON										
OTROS (ANUALES)										
TOTAL										

PARA USO DE LA CLASIFICACION

DESCRIPCIONES	1	2	3	4	5	6	7	8	9
1 AREA A SEMBRAR		100	80	60	40	20			
2 RENDIMIENTOS ESPERADOS		100	80	60	40	20			
3 USO DE FERTILIZANTES		100	80	60	40	20			
4 CALIDAD PROMEDIO DE LOS SUELOS		100	80	60	40	20			
5 APRECIACION GENERAL		100	80	60	40	20			

AREA TOTAL DEL ASENTAMIENTO
AREA CULTIVABLE TOTAL
AREA EN CULTIVOS PERMANENTES
AREA CULTIVABLE DISPONIBLE PARA CULTIVOS ANUALES
DISPONIBILIDAD DE MANO DE OBRA

RESERVED

DESAGRO (Extension Service) provides technical assistance to all CONACAL groups as well as to asentamientos. These groups also secure financing from BRF through the ANACH (CONACAL) fund; BRF offices examine and approve each project individually. DESAGRO is putting a total emphasis on working with groups and is acquiring a reputation among ANACH and independent groups for doing so with competence and group satisfaction.

FACACH and CONCORDE, in their newly developing programs, plan to provide staffs of agronomists of their own as well as train "agricultural instructors" to make it possible to reach more groups. They propose also a close association of technical assistance with the credit. Participants will be expected to contribute to technical assistance costs.

The following data calculate the ratio of groups and participants to technicians under these plans:

	<u>FACACH</u>	<u>CONCORDE</u> ^{1/}
No. of groups	150 to 200	1175
No. of participants	8,793 ^{2/}	30,000
No. of technicians:		
Agronomists	5	10
Agricult. Instructors	25	250
Total	<u>30</u>	<u>260</u>
Patio groups to technicians	5 to 6.7	4.5
Ratio participants to technicians	293 ^{2/}	115

Source: FACACH and CONCORDE

These ratios are about as low or lower than the ratios in existing credit/technical assistance programs that are working well. Also they are in line with the plan in the asentamiento pilot project to use one technician for each 6 or 7 asentamientos. The difference is that the proposed programs plan to use primarily

^{1/} Data on Olancho multiplied by five regions. There are differences in estimates among regions that are not material but difficult to consolidate on a uniform basis.

^{2/} No. of participants is actually number of beneficiaries; as beneficiaries may not correspond to number of farmers in the program at any one time, the ratio calculated is a maximum figure.

pecially trained instructors rather than professional agronomists. This makes sense both in terms of money and manpower supply. Instructors will cost less money, and agronomists are, as stated elsewhere, in insufficient supply to staff PESAGRO and other programs. Six months training is probably sufficient to turn out men capable of doing an adequate job provided they are well selected and the training program is good. The rural schools that are to be used for training are, however, institutions of very limited funding and without prior experience in the training of personnel for the dual function of credit supervision and technical assistance in farm management and planning. Agronomists used as teachers tend to be young and probably have had limited credit experience. Training programs do not appear to have been elaborated and training materials presumably will be scarce.

The following table shows roughly the amount of credit extended in recent years to various cooperative groups in Honduras or their members:

Cooperative or other groups	Year	No. members	Total Credit (Lempiras)	Average per member
1. IIA land reform cooperatives and pre-cooperatives	1973	2,517	5,400,883 ^{1/}	2,145
2. Asentamientos	1973	15,298	2,664,674	173
2.a. Borrowing asentamientos only	1973	5,490	2,664,674	485
3. FACACH (Credit Union)	1972-1973	8,300	771,000	92
4. COMACAL (ANACH Coop)	1973	1,600	1,073,700 ^{2/}	667
5. FECONCAL (Coffee Coops)	1973	3,000	4,821,000 ^{3/}	1,607
6. FEHACOCAL (Sugar Coops)	1973	n.a.	1,451,500	-
7. COOPERATIVA ALGODONERA DEL SUR (COTTON COOP)	1973	n.a.	7,062,600	-
8. FECONAGROH (grain and misc. product coops of independent farmers)	1972	4,420	425,000	96 ^{4/}
9. FUNDHESA and CONCORDE	1973	3,000	342,648	114 ^{5/}

Sources: (1) INA; (2) and (2a): BIF; (3) FACACH 1972 survey projected to 1973; (4) BIF; (5) BIF and FACACH; (6) BIF; (7) BIF; (8) FECONAGROH; (9) FUNDHESA.

- 1/ Of this 1,123,830 Lempiras comes from a PID loan.
- 2/ Includes special 500,000 Lempiras loan for bee project.
- 3/ Amount coffee cooperatives themselves borrowed in 1972 for all purposes from BIF and FACACH. Amount reporting coops lent, of which presumably all or almost all went to farmers, was 2,636,600 Lempiras in 1972 according to Fomento Cooperativo.
- 4/ FECONAGROII credit is now theoretically zero, however, some cooperatives reportedly are securing some private loans.
- 5/ Most funds were lent for special purposes to groups constituting a very few farmers.

From these figures it is evident that the cooperatives composed largely of more prosperous farmers (coffee, cotton and sugar) are getting the lion's share of the credit. The small farmer INA coops, on which considerable capital and development expense has been devoted by the Government, are the only real small farmer coops receiving generous credit. A somewhat generous policy also is emerging with respect to asentamientos. None of the other small coops receive very much. There are several reasons for this. First, the BIF has not yet become oriented toward serving small farmer coops except for those organized by INA and ANACII. Second, sponsoring organizations such as FUNDUESA and FACACH consider it wise to begin lending either small or fairly modest amounts to build up experience in the use of credit and to eliminate those who misuse it. Third, many independent farmers have very little land and therefore can absorb only limited credit. Fourth, sponsors of cooperative groups tend to be reluctant to lend funds for operations which they regard as uncertain businesses likely to lead to losses that cannot be recuperated. Much of their present constituency consists of marginal farmers with substantially no capital base. These organizations are particularly leery of basic grains and beans on which profit margins have been too narrow to cover the risk of crop losses owing to drought, floods, excessive rains, or other problems.

Bad weather and poor harvests caused FECONAGROII cooperatives to fall into difficulties on most of their loans in 1972 and to lose their credit standing. These cooperatives now have practically no

access to credit anywhere, which is not only a hardship on them but reduces the possibilities of recuperations on the defaulted sums. CONACAL, with experience largely in the North, has accumulated too much delinquency (around 30%) principally because of grains and beans to want to sponsor further credit for them, or to take on additional groups of subsistence farmers who will depend on these crops. DESAGRO agents in the South have expressed views that it is undesirable to request credit or utilize fertilizer on corn and that it should be treated as a purely subsistence crop. Whether recent changes in RIF policies on grains will greatly change these attitudes is not known. At the very least many cooperative organizers and groups will be apprehensive that policies favorable to production of grains will not be maintained over the long run.

There probably should be more annual production credit put out per capita than has been typical of the experience or plans of most organizations sponsoring small farmers groups. It will be very important in the course of the survey proposed for the AID program to determine more about credit needs and the problems both of farmers in getting credit and the delivery systems in providing it. For the present, however, it would appear imprudent to press across the board for significantly higher levels of credit. Nonetheless, the tendency of some groups to want to push vast organizational efforts including technical assistance on a very thin credit base should be reviewed with some care. Average loans per participant contemplated by the CONCORDE and FACACH plans of 120 to 250 Lempiras may be sound for the first two years of operations; but they do not provide much wherewithal as credit levels when programs become more seasoned. They could, of course, be viewed as stop-gans until stronger programs come along, but this is not likely the viewpoint of the program sponsors. With the lack of either a data base or operational experience or evaluatory data on the proposed new programs, judgments are hard to make and a cautious attitude is warranted.

B. Marketing and Input Services

On a limited scale the cooperative movement has provided some marketing/input services. The coffee and cotton coops market their products; a variety of organizations purchase inputs for their members; some arrange transport to sell their grains to RIF; and various other marketing activities can be observed. Business know-how is evidently not well developed or well spread: some coops buy inputs from RIF; others assert there are many ways to buy at much lower prices. Moreover, the agricultural cooperative movement has no informed voice to contribute broadly to the formation of Government agricultural marketing policies. Every part of

the cooperative movement is anxious to develop marketing services of some sort. In many respects this is a good thing as much can be done now by small organizations or even individual coops. Fomento Cooperativo provides some helpful assistance. However, the existing cooperative organizations do not provide a good base from which to organize many marketing/input services, which should be conceived for the agriculture cooperative movement on a national scale. The movement is too fractionalized and there is no concentration of marketing talent or much money anywhere.

It also seems to be clear that the marketing system in Honduras is woefully inadequate for the small farmer. Effective arrangements cannot be made to get fresh produce to market. This results in high spoilage and lower prices to farmers. There is no refrigeration.

While farmers are entitled to sell grains to BIF storage points at support prices, they have no means of getting their products to these points, though some organized groups do contract for trucks. Private mills set their prices just a fraction ahead of Government support prices and there is reportedly no real competition. The real beneficiaries of Government programs to assist small farmers, it is widely claimed, are the middlemen.

A comprehensive long-term study of agricultural marketing problem in Honduras is currently being undertaken by a marketing team of the Canadian International Development Agency. It is understood informally that the desirability of developing cooperative marketing facilities in Honduras is likely to be suggested by this study.

The recent IICA study on Honduran Campesino organizations and cooperatives states that "the assistance in the marketing of products is very limited, not to say nil. This leaves the small producers of these organizations in the power of intermediaries who at times are despiadados acotistas (merciless users)". 1/

A desirable complement to developing marketing services exclusively through individual cooperative groups and federations is to establish a national cooperative marketing union (which could also parent or assist in the formation of regional unions). The "union" is a cooperative organization form which unites cooperatives across federation lines for the achievement of a common purpose. Honduran law provides for the "union" type of organization as a second degree cooperative. Regulations under the law specify that a union must be formed of a minimum of three cooperatives of different types, and no restrictions as to purpose are stipulated.

1/ Garcia, "Estudio Sobre Organizaciones Campesinas en Honduras", p. 22.

The "union" approach has had considerable success in Costa Rica where "La Union" has attracted membership from most of the cooperatives and federations in the country. It began on a small scale by buying and selling. Its guiding principle was to develop any line of business within its capabilities that would serve cooperatives better and leave a margin to expand its activities. Regional unions are now being formed throughout the country to expand market facilities and at last report the plan had very strong support. AID has similarly had good recent experience in Paraguay. There a uniting marketing cooperative (UNIPACO) was established. The new organization began by trading -- buying and marketing principal produce of cooperatives and other farmer associations and supplying key inputs. It achieved a profit from its inception, an uncommon if not unique experience in AID involvement with small farmer programs.

A cooperative marketing-supply union is not an organization that cooperatives are compelled either to join or to utilize. Elements of the cooperative movement must themselves judge its usefulness in providing services and it must meet the competition of commercial middlemen. It requires, of course, time for a cooperative service of this type to develop its functions and meet adequately needs at the bottom. A beginning, however, should be made by identifying and pursuing the best immediate opportunities. Mutual advantage will bring the marketing supply union and the producing cooperative units together at those points where the producing units will benefit and the marketing unit can operate with financial soundness.

A marketing union, with its broader expertise, experience and market knowledge, also can fulfill the vital functions of disseminating marketing knowledge throughout the cooperative movement and of providing guidance and assistance for marketing programs that are best undertaken at federation or local cooperative levels. Its knowledge, brought into play in the conception of production investment projects, can avoid costly errors that result from failure adequately to consider marketing problems. Finally, a marketing union would have the broad knowledge necessary to discuss effectively with Government agencies marketing and supply practices that deeply affect the agriculture cooperative movement. In any case, an approach which cooperative will provide for a rational framework within which marketing activities can be undertaken, is required.

C. Long-Term Farm Development

One of the frustrations of cooperative organizations working with small farmer groups is the difficulty of obtaining long-term capital to develop the most promising farm situations of potential benefit to groups of small farmers.

These opportunities do not fall into any particular pattern and, therefore, have not given rise at planning levels to any particular program. In one case a group of farmers may have excellent opportunities with limited capital to go into the production of a particular crop. In another case there may be potentialities in bee culture or poultry farming. In still other cases, groups have substantial land hazardous for cultivated crops but which could provide excellent pasture for a herd of livestock. In a number of cases, there are groups that have the opportunity of buying some prime land for one of the most profitable crops in their areas, but they can't buy it not only because they can't get a down payment together but because landowners don't want to sell except for 100% cash. 1/ In other cases there are potentialities for low cost irrigation from streams or wells that could have a high payout, and drainage and river defense improvements. In other cases farmers need some facilities and equipment but lending terms are too short. (In some of these cases loans are approved anyway; the bank or other institution knows that the chances of delinquency are high but that the loan is basically secure).

Many capital projects of these types could have a much better pay out than loans for annual crop production. Annual crop loans, since they must be repeated every year, never turn over; capital loans build up farmer capital and are recouped for another use as they are repaid. Annual production loans to marginal farmers are very risky as one or two bad crop years leaves them without capability to repay and may well result in dissolution and disappearance of the group. Farmers with a moderate capital stake in their farms are not likely to leave, will have higher incomes and are better credit risks.

1/ FUNDINESA has reportedly been able to get land for a few groups by providing modest equity capital loans which make possible the obtaining of bank mortgages for most of the cost.

What is needed is not a project based on assumptions that certain kinds of investments offer the most promising agriculture opportunities for low income farmers. Different farm groups have different land and different opportunities that require consideration on a case by case basis to determine potential cost/benefits in each situation. The priority need is to identify and support the best of these specific opportunities.

Aside from immediate benefits to a significant number of small farmers in raising them to a higher level of security and income, together with multiplier effect throughout the economy, a fund to support such investments would provide a valuable record of experience as to ways and means of using long-term credit effectively in a variety of situations to move marginal farmers up the income ladder.

PART III: A PROPOSED AID PROGRAM FOR SMALL FARMER COOPERATIVE ORGANIZATIONS

A. General Exposition

In the development of proposals for an AID assistance program for small farmer cooperative organizations, it is important to consider both short and long term objectives.

Over the short term the program should try to achieve the greatest impact possible to assist substantial numbers of small farmers. In this respect it should be complementary to the main activities of GOH agrarian reform, principally by seeking to achieve some progress with the large numbers of small farmers who are not beneficiaries of land distribution. To this end it should work with cooperative and similar types of institutions with potentialities to reach small farmers effectively in groups.

Over the long term, the program should look toward the establishment of broader, more efficient, and rationalized agricultural cooperative movements that will be something more than a patchwork of overlapping activities created to meet the exigencies of the current time period.

Given the limited resources at AID's disposal and current uncertainties in GOH policies, it is not possible to design a full-scale program that will take all the steps that would be desirable to pursue the above objectives. Accordingly, the program must seek to identify priorities in which a substantial impact can be achieved and a body of experience susceptible of evaluation, developed as a basis for future program improvements and for attracting or utilizing additional resources that may later be available either from AID or other sources.

In terms of loan funds the proposed program consists of \$2,000,000, divided into equal parts of \$1,000,000 each for a Small Farmer Cooperative Production Credit Program and a Small Farmer Cooperative Capital Development program. The GOH contribution to the funds will be \$1,000,000 and \$500,000, respectively.

The objective of the Small Farmer Cooperative Production Credit Program is to provide a significant infusion of capital to permit the delivery of the credit technical assistance package to substantial numbers of independent farmers. ^{1/} This means to a large extent serving farmers with small landholdings, a substantial proportion of which are primarily engaged in production of basic grains and beans. Despite unfortunate past experience with programs for such farmers, there are three

^{1/} The term "independent farmer" is used broadly to signify all farmers who are not receiving credit/technical assistance under the Government land reform program.

factors that suggest that there can be future success:

1. New prices policies of IBP make the production of basic grains considerably more profitable.
2. There is reasonable prospect that drought of the intensity of 1972, which caused wholesale delinquencies, will not be repetitive.
3. There are responsible organizations to supervise the credit.

While grains and beans will be principal products, these will not be the only crops. In many areas farmers can, even with improved grain prices, make higher income with other products. Many of them are already producing, and many more need to diversify into the better paying crops that have been identified in the INA Land Settlement cooperative program. In order of importance (as measured by hectares in the INA program) these products are the following:

Cotton
Bananas
Plantains
Sugar Cane
Grain Sorghum
Citrus
African Palm
Melons and Watermelons
Sesame
Vegetables

Vegetables have an income potential which is not reflected by comparative hectare figures. Forestry and cashew nuts are two developing areas of opportunity, and other possibilities may be soy beans, fibers, yucca, potatoes and perhaps other products.

The AID program should permit loans with respect to cotton, which is the major cash crop of the southern part of Honduras, and sugar cane, which is important in both north and south. A.I.D. funds, however, will not be used for such crops.

There are primarily four cooperative-type organizations through which independent small farmers can be reached: ANACH (CONACAL), - FUNDHESA, FECOAGRON, and FAEACH. Each of these organizations has aspirations to develop program of nationwide scope. AID, however, has not sufficient resources to adequately finance one national program sufficiently to reach a substantial part of the target populations. There would be neither point nor possibility to financing three on a scattered national basis. Instead, it is proposed that AID financing be offered to each but on the basis of geographically defined

programs in which the recipient will undertake to concentrate attention. This will not, of course, in any way preclude any organization from operating elsewhere if it secures other sources of financing. It is proposed further that, without trying to dictate the style of any program but rather to encourage each to exercise its own originality, AID should try to secure acceptance of certain basic principles that achieve equitable terms of lending among the organizations involved. These principles should include a generally uniform pattern of interest rates applicable to cooperative groups and individuals respectively; some provision for capitalization of loan funds of the cooperative organizations or constituent groups; assurance that credit will be provided against viable written farm plans and associated technical assistance; and assurance that the quantum of credit per farmer will bear a reasonable relationship to the technical assistance input.

The Small Farmer Cooperative Capital Development Fund has two specific objectives, which also unite in a more general one. The first specific objective is to provide capital funds to enable small farmer groups to take advantage of outstanding opportunities to make a quantum jump from marginal farmer status to activities which will provide significantly greater income. In a sense the fund is frankly experimental. At the same time the approach is open-minded; no a priori judgements are made as to which kinds of structural changes in small farmer activities will provide the greatest pay-off--though it is hoped that certain identified opportunities (such as forestry cooperatives) point to possibilities of some significant breakthroughs. Rather the aim is to find small farmer capital developments that offer the greatest benefits relative to investment, and thus both the greatest immediate gains as well as the most useful experience for further programming. While AID funds cannot be used for purchase of land which may be vital to some projects, the proposal envisages the possibility of utilizing the AID funds in the cooperative financing of projects with other institutions (e.g., commercial banks) that do not have this restriction. ~~GOH~~ contribution may be used for this purpose as well.

The second specific objective of the program is to make a significant initial push in the almost completely neglected field of cooperative marketing (with which is logically associated input supply). As in the case of production development projects described above, the guiding principle with respect to marketing would be to provide funds for projects and activities offering superior opportunities. As this aspect of the fund is closely associated with complementary technical assistance, it will be referred to in more detail below.

In addition to these two specific purposes, the capital development fund will serve the more general purpose of building major national cooperative institutions and institutional capabilities.

The administration of the loans will be vested in the cooperative window of BNF, which it is proposed will involve in its program an advisory group composed of the principal cooperative organizations of the country. This will engage both the bank and cooperative organizations in

the process of dealing nationally with problems of cooperative capital development. This could be viewed as a beginning step toward the possible ultimate evolution of a cooperative development bank. Further a significant use of marketing loan funds is contemplated for the development of marketing/input services on a national basis across lines of individual cooperative federations and groups. In particular it is anticipated that the marketing funds will be used in support of national activities of a cooperative agricultural marketing union. The ultimate creation of associated institutions consisting of a cooperative federation and service organizations in cooperative banking and cooperative marketing (together with the proposed Institute of Cooperative Education and Research) would provide the cooperative covenant with the basic national infrastructure appropriate to a mature cooperative movement.

The technical and grant assistance component of the proposed program also takes into consideration both short and long term needs. First of all, it provides for an economic development economist for the BNF to assist its cooperative window. This should contribute both to the immediate need for additional manpower to organize and operate the window and to the study of the potential role that the window can play in the development of the cooperative movement of the country.

Two short term technicians are suggested to assist Fomento Cooperativo to develop simple and effective systems of cooperative organizations for small groups. The immediate needs for this are evident. First, the Government is establishing some hundreds of asentamientos. They cannot--certainly not immediately-- be organized as full-fledged legal cooperatives. Also their very numbers suggest that some regional or zonal grouping is necessary if there is to be effective communications back and forth between them and the Government agencies and second-degree cooperative organizations to which they should relate. Second, Fomento Cooperativo, in planning the future development of FICOAGROH, is eager to develop a new style of organization with legally organized zonal cooperatives composed of more simply organized farmers' associations in the various pueblos. Accordingly, this is the propitious time to make a thorough study of the simplest most efficient system of zonal cooperatives that can be developed. This is important over the long run so that the cooperative movement grows with a logical structure rather than one that will be clumsy and burdensome. The aid proposed consists not only of a cooperative development specialist but also of a business system analyst. This is important in the interest of developing simple and efficient record and accounting systems which enable small groups to maintain minimal records while the more sophisticated accounting is performed centrally by the zonal "mother" cooperative.

The heaviest technical assistance and other grant support is provided for the development of a rational approach to cooperative marketing which might include a marketing union. A marketing union would have a dual role of developing marketing and input supply services for agricultural cooperatives as a whole and of assisting other cooperatives with marketing matters that can best be administered either at federation or zonal or local levels. The approach should begin with a study and plan of -

action to be developed through the assistance of two marketing technicians who have had actual trading experience in or with Latin America. Their mission, simply stated, will be to develop a viable approach to cooperative marketing.

Finally, the technical assistance and grant aid component provides for a small contribution to the program to be undertaken in private schools to train agricultural instructors for the FUNDHESA and FACACH small farmer credit/technical assistance projects. These schools have good access in Honduras to professional talent. They have, however, virtually no funds to prepare pedagogic materials or to buy training equipment. The Mission intends to fund this element by grant.

B. Specifics of Proposed Program

1. Small Farmer Cooperative Production Credit Fund - \$1,000,000 AID
\$1,000,000 GOH

This fund should be provided to the BNF for administration by the cooperative window. The suggested manner of operation for the fund is the following:

FACACH, FUNDHESA, ANACH (CONACAL) and FOMENTO COOPERATIVO (on behalf of RECOAGROH and independent small farmer cooperatives) should be invited to submit applications for loans to establish production credit for the groups they service. With such applications the federations and groups should be requested to set forth the following information:

- (1) List of cooperatives and other groups by region of the country, showing for each group:
 - a. No. of members.
 - b. No. of manzanas and principal crops
 - c. Amount of credit received in 1973.
 - d. Amount of credit outstanding.
 - e. Amount of credit on which payment is delinquent or on which the period of repayment has been extended.
- (2) A statement of current sources of income (including donations) and credit of the federation or other sponsoring organization. Information of any credits in default.
- (3) The rate of interest the borrower proposes to charge (a) individual cooperatives or groups and (b) individual farmers if any loans are to be passed downward to them; (c) any other charges to be made either for credit, technical assistance, cooperative administration and education, or other purposes; any requirements that the group or individual farmers must capitalize any part of their loans.
- (4) A statement of the federation or other organization's plan to provide technical assistance to its cooperatives or other groups

and proposed manner of financing.

- (5) Sample copies of any standard documents and forms used in group administration, education, farm planning, etc.
- (6) If it is proposed that any of its groups that are in default on existing loans to the BNF or any other institutions should receive new loans, a description of the plan for recuperation of the delinquent sums.
- (7) A statement of the region(s) or zone(s) in which the borrower intends to concentrate lending activities with the proceeds of the loan solicited under this program. This should indicate by region or zone and by years (1975-1978) the following:
 - a. Estimated number of groups and participants.
 - b. Total credit to be provided to these groups and participants from this and any other financing sources.
 - c. Estimated proportion of annual production credit and medium term credit proposed to be given.
- (8) In requesting such applications BNF should indicate that the following guidelines will apply in determining whether a loan will be granted and in what amount:
 - a. That it is improbable that loans will be granted unless the applicant demonstrates that effective arrangements have been made to provide continuing technical assistance to each group and that each sub-loan will be based on realistic written farm plans. Further there should be a reasonable balance between the amount of loans provided per farmer and the quantum of effort in providing technical assistance.
 - b. That in order to achieve equitable treatment among sponsoring organizations and small farmer groups, loans will be made at 5% to federations or other sponsoring organizations by BNF; sub-loans to groups are to be made at 9% and to individual farmers at 12% per annum. In addition loans to the ultimate recipient (farmer or cooperative group) should be surcharged at least an additional 2% commission for technical services and 5% (which can be reimbursable to member farmers on retirement from the program) for capitalization of the federation's or sponsoring organization's loan program. Modifications of these provisions may be made to suit the style of a particular program if a substantially similar result is achieved.
 - c. That plans should show regional or zonal concentration of effort rather than dispersion over wide areas. Deviation from such concentration will, however, be considered to

the extent necessary to service existing, well-organized groups without current access to credit provided the associated technical assistance can be effectively arranged.

- d. That the amount of credit to be provided per participant should be significant and not disproportionately small in relation to technical assistance input.
- e. That credit to any federation or group in excess of 750,000 Lempiras is improbable.

It is further proposed that funds be divided among responding organizations in accordance with the respective merits of their plans and according to a pattern that will avoid or minimize overlapping of geographical areas. Thereafter, individual agreements should be negotiated with each party. Renewal of loans (and particularly their amplification with additional funds should they become available) would be considered in the light of achievement.

Finally, it is proposed that initial plans and subsequent reviews of the programs be undertaken by a committee composed of representatives of BNF, DESAGRC, and AID.

2. Small Farmer Cooperative Capital Investment Fund --\$1,000,000 AID
500,000 Goll

The purpose of this fund will be to make long-term loans for two purposes: (a) to small farmer cooperatives or groups to establish more productive farm units; (b) to cooperatives and cooperative organizations to develop marketing programs and facilities.

Individual loans would be subject to approval of BNF with participation of DESAGRO with respect to production development loans and of the proposed cooperative marketing union with respect to marketing loans. No projects for marketing will be approved prior to the preparation of the Cooperative and Marketing Master plan. AID concurrence will be required for sub-loans in excess of \$100,000 where AID loan funds are used.

(a) Capital loans for production purposes

The program of production capital loans would be experimental to develop experience in changing the operations of a group from relatively marginal low-income activities to activities of substantial economic promise. The expectation is to develop projects in which long-term capital will be more productive than repeated applications of annual production credit. The basic criteria is to be whether the project has superior prospects of a high pay-off in enabling a number of low-income farmers to change significantly their economic status. More specifically,

the rules for the fund will be the following:

1. The amount of the capital investment shall not exceed \$2,000 per farmer participant.
2. Current average annual incomes of the participating farmer should be under \$500.
3. The capital investment can be in any form -- land improvement including irrigation, construction of facilities, livestock, and permanent crops, but excluding land purchase.
4. The cooperative organization applying must furnish a plan of investment and operation showing:
 - a. Costs and benefits.
 - b. Evidence that the plan is technically sound and that there is an available market at the prices utilized in calculating benefits.
 - c. Availability of necessary long-term technical assistance. (This can be from either a Government or private source).
 - d. Capability of the group to obtain working capital from other sources. (This can include another BNF source).
 - e. Willingness of the group to agree to a plan whereby they contribute labor, within their capacity, to the capitalization of the project.
 - f. Evidence of good group organization and cohesiveness and a good credit record.
5. The loan from this fund can be subordinated to loans from other sources for working capital.
6. Maximum period of 10 years at 9% with the schedule of repayment conforming to a realistic schedule of repayment based on income projections.
7. Special consideration will be given to cases in which a private financial institution is prepared to participate in the financing. In cases in which an associated lender is prepared to assume the total risk, the BNF would consider lending through the associated lender at a preferential rate of 6%. The loan of the associated lender can be for purchase of land, if necessary for success of a project, and can take the form of a mortgage loan. Projects will be selected on a basis of relative soundness and cost/benefits. Information on the fund and requirements will be disseminated to all cooperative federations and sponsors.

dealing with small farmers and to all DESAGRO agents working with such groups, including the asentamientos.

8. AID loan funds will not be used for financing of projects directly contributing to production of cotton, coffee, sugar and tobacco.

(h) Capital loans for marketing

Loans for the financing of marketing projects are intended in substantial part for projects to be developed after the cooperatives marketing master plan has been prepared. Loans will be granted for projects that are appropriate for action at the level of federations and individual cooperatives or local groups of cooperatives as well as projects that might be developed at the national level. Loans for initial working capital should be permitted with terms up to the longest possible under the fund operations (where important to adequate capitalization of the marketing union or other marketing organizations).

3. Technical and other Grant Assistance

The technical and other grant assistance component of the proposed program consists of the following: (Grant funding is designated with an asterisk).

- (1) Assistance to Cooperative Bank Window Development.

Estimated
Cost

One economic development economist for a period of two years to advise and assist the BNF with respect to organization of the cooperative window, particularly with respect to:

- a) Lending policies, including fundamental analysis of the economic development implications of lending to various types of clients for various purposes.
- b) Establishment of guidelines for credit offices of the bank in conducting cooperative lending not requiring special cooperative window review.
- c) Establishment of procedures for review of loan applications by the window.
- d) Establishment of a management information system.
- e) Study of means of simplification of procedures for treatment of small cooperative groups in application for processing, and administration of loans.
- f) Development of annual credit plans.
- g) Related duties as assigned by BNF.

\$ 80,000

Estimated
Cost

(2) Assistance in Small Farmer Cooperative System Development.

One Cooperative Development specialist for 3 months.

One Business System Analyst for 3 months

\$ 30,000^A

These services would be provided to Fomento Cooperativo and INA (and through them to cooperative federations as appropriate) in the design of simple systems of cooperative organization, administration and record keeping which avoid the organization of small groups and asentamientos as full-fledged legalized cooperatives. Such a plan presupposes the establishment of intermediary regional or zonal cooperative organizations to provide efficient central services such as group accounting which ties in with simple record keeping at group level and the auditing responsibilities of Fomento Cooperativo at national level. The Cooperative Development Specialist should have had a background of experience with campesino groups in Latin America and the Business Systems Analyst should be specialized in the design of simple cost-and time-savings systems.

(3) Assistance in Developing Cooperative Marketing Program:

Development of master Plan for Cooperative marketing:

One Agricultural marketing specialist for 6 months

\$ 20,000

One Agricultural marketing specialist for 3 months

\$ 15,000

The combination of two (to be chosen with a view to complementarity of experience) is proposed in order to provide greater depth of planning of practicable business activities. Both should have had commercial trading experience in or with Latin America. Preferably one should have had experience working with cooperatives. The longer term specialist would also be concerned with non-marketing aspects of institutional planning and preferably would be the individual considered as long term advisor in phase 2. The duties of the team would be to work with cooperative organizations, particularly through the National

Estimated
 Cost

Committee on Cooperative Integration, in developing a plan for the marketing with a view to the possible creation of marketing cooperative union with the following functions:

- a) To organize and conduct marketing and input supply functions at national and regional levels which can be more effectively organized at such levels than through federations or individual cooperatives.
- b) To provide or arrange for marketing assistance to cooperatives, cooperative federations and other groups on a cost reimbursable basis.

Phase 2: Implementation

One Agricultural Marketing Specialist for 3 years	\$ 120,000
Short term agricultural marketing consultants not to exceed 6 months	\$ 30,000

(4) Assistance to Training Programs for Agricultural Instructors, subsidization of salaries of two local-hire Teacher-trainers (6 terms of 6 month duration each) and contribution to purchase of equipment and preparation of course materials on credit for small farmers, credit supervision, farm management, preparation of farm plans, and evaluation of results of farm operations. This contribution would be made to schools operated to train agricultural instructors (technicians to substitute for agronomists in working with cooperative and other groups) under programs administered through FUNDHESA and FACACH	\$ 30,000*
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TOTAL	\$ 325,000
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4. Support Needed from Honduran Agencies

Effective carrying out of the above programs would require the following Honduran support:

- a. Banco Nacional de Fomento.
 Increase in staff of cooperative window from one to three professionals.
- b. Fomento Cooperativo.
 Increase in the budget of Fomento Cooperativo by about 200,000

lempiras annually in order to enable it to carry out plans for the development of small, farmer cooperative systems for both independent farmers and asentamientos. This would be for expenses in developing and applying the system. Costs would, of course, be a charge on the cooperative groups participating.

APPENDIX I

DESCRIPTION OF FARMER COOPERATIVES, QUASI-COOPERATIVES, AND
RELATED ORGANIZATIONS IN HONDURAS ^{1/}

1. Dirección de Fomento Cooperativo

This is an autonomous organization reporting to the Minister of Economy and Finance. Its responsibilities are essentially the development of cooperatives (including assistance in their formation and in the subsequent development of their educational and operational programs), the legalization of cooperatives, auditing and inspection of cooperatives, and general administration of the cooperative law. It also prepares a considerable amount of helpful statistics and other data concerning the cooperative movement in the country.

The budget of the office for 1974 is Lempiras 448,823 and the total staff (including some regional offices) is nearly 50.

Although many of its functions and activities are not widely known, the office appears to be well staffed and to be doing a good job. In terms of the more formal aspects of its work, the growth of the cooperative movement indicates that it has been active in working with cooperatives to fulfill requirements to achieve legal personality. There have also been substantial numbers of cooperative failures which have involved the office in a considerable amount of the unglamorous work of winding up their affairs. With respect to auditing, its work is both useful and necessary as a control to assure that cooperatives are managed and books kept with financial responsibility. Its staff, however, is not sufficient to achieve annual audits of over 300 cooperatives and federations scattered throughout the country. It must necessarily operate on a selective basis.

In its development work it is endeavoring with 12 cooperative extensionists to cover the following cooperative fields: agriculture, livestock, forestry, fishing, small industry, commerce, transport, and rural housing. The limited amount of effort it is able to devote to agriculture appears to be well-utilized. A part of its effort is devoted to keeping alive the cooperatives of FECOAGROH, from which AID has withdrawn support. ^{1/} of these cooperatives

^{1/} The following discussions include a great deal of valuable information contained in "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, USAID/LA, April, 1974.

are viable as groups and could become vigorous if reorganized on a broader basis and given access to adequate technical assistance, credit and marketing/input services. Fomento Cooperativo helps both these and other agricultural cooperatives in cooperative education, development of marketing outlets, advice on storage and conservation of products, preparation of applications to IMF and other institutions for credit, etc.

The plans of Fomento Cooperativo for the development of forestry cooperatives offer possibilities that could be of great importance in providing rural employment. Currently it is organizing 16 cooperative groups with total membership of 1132. These groups are beginning to engage in forestry operations in conjunctions with seasonal farming, thus providing year-round employment. Fomento Cooperativo asserts that there are existing plants prepared to purchase the cooperatives' production. The project lacks capital for the purchase of equipment for forestry operations.

Fomento Cooperativo is also working with eight groups involving 712 small farmers who are developing cooperatives for the production of fibers (henequen, junco and ramio) and their processing into finished products. The sowing is being done in dry areas not suitable for crop production. Some capital is required for equipment and for caring for plants during the five-year period before they become mature.

2. FUNDHESA and Related Agencies

FUNDHESA (Honduran Development Foundation) is the fund raising agency for a group of private agencies with projects largely centered in the south of the country but developing in varying degrees towards national scope. The chief participating agencies are Acción Cultural Popular Hondureña (ACPH), best known for its radio school program; Caritas; Asociación de Promoción Humana (APRHU), the Honduran Chapter of Volunteers International for Technical Assistance (VITA); the credit union federation (FACACH); and the Clubes de Amas de Casa (Housewives Clubs). FUNDHESA and the other agencies coordinate their activities through a group entitled Consejo de Coordinación para el Desarrollo (CONCORDE).

FUNDHESA's success in raising funds has made it possible to greatly expand its lending to associated groups from 17,000 Lempiras in its first year (1969) to 234,000 Lempiras in 1972 and - 1,381,292 Lempiras in 1973.

In agriculture the CONCORDE program is centered in ACPH through what is known as the Programa de Promoción Agrícola (PPA). PPA has been operating two years in the south of Honduras, where it has agrónomos working with about 180 groups. The average size of its groups is small -- apparently around 15 -- so that the total number

of farmers is somewhere in the 2000's. It claims to have had significant success in terms of diversification of products and improving techniques. The aid given to each campesino group, however, is uneven as the program is in its early stages and has not yet had significant funding.

The plan of the program is to train para-professionals from among the campesinos, each of whom is to handle 20 groups whom he will visit once a month. 1/ The training is to be done at one or another of the rural schools of capacitation maintained by CONCORDE members or related organizations. These schools have been in operation for some time teaching a variety of subjects ranging from pre-marital courses to farming methods. Course outlines and pedagogical materials on these para-professional training courses do not appear to be obtainable. In each region of the country two agronomists are expected to supervise the work of the para-professionals.

Under the plan each campesino group is to function under the direction of an agricultural promotor designated by each group, who will be given a month of training. Conversations with an agronomist in the south, however, suggest that this is not yet being done, though campesinos are being given training in farming, simple administration, etc. without specific relation to a promotional role in their group. In addition to the services of a para-professional, the groups will use demonstration plots and receive daily radio programs and some written materials. The content of the ACPH radio programs, which have been continuing for some time, is generally well-regarded -- and programs are of course heard by farmers generally and not only group members.

The plan further provides that the groups are to receive credit for production and local storage of grain from a rotating fund. In the first trial year of the program, about \$6000 was reportedly lent with 98% recuperation. Finally, the plan contemplates that the consumer coops now being established by FUNDHESA will expand to sell inputs and market products. While the consumer coop in the south has made minor input sales, marketing has not been undertaken and no detailed marketing or input supply plans appear to have been drawn up. FUNDHESA reports that the consumer cooperative in Juticalpa has made some purchases of corn, bean and rice at about 10% to 15% above market prices; these were resold through the cooperative rather than marketed elsewhere.

The per capita cost of the program, exclusive of credit, is estimated at about US\$5.00 per farmer based on 5000 to 6000 participants

1/ ACPH sometimes shows its plan to be one instructor for 20 to 30 groups; other times something like 50 for 225-235 groups or average of 4.5. Compare for example pages 3 and 47 on report on Olancho region.

in a single region served by two agrónomos. Average credit extended per farmer would be about \$60.

FUNDHESA estimates its borrowing needs for the PPA program for five regions of Honduras (Olancho, West, South, North and Central) as follows:

1974	605,000 Lempiras
1975	2,429,000 Lempiras
1976	4,580,000 Lempiras
1977	5,230,000 Lempiras
1978	50,000 Lempiras
<hr/>	
Total	12,894,000 Lempiras

In addition for two regions it is currently soliciting Lempiras 685,000 from MISERDOR and Lempiras 700,000 from Inter American Foundation. This would indicate a total grant need of about - 3,500,000 Lempiras for all five regions. In loans and grants, therefore, a program in excess of \$8 million is contemplated.

3. FACACH - Federación de Asociaciones Cooperativas de Ahorro y Crédito de Honduras.

FACACH, as it is generally known, has grown to a strength of 110 cooperatives with 29,700 members as of December 31, 1973. The total assets of its member cooperatives were 15.4 million Lempiras and total deposits were 13.1 million Lempiras. The Federation itself has assets of 4.1 million Lempiras and net worth (aportaciones and donations less accumulated expenses in excess of income) in excess of 314,000 Lempiras.

FACACH is a well-managed financial institution which has achieved considerable community respect. It has not yet, however, achieved financial self-sufficiency. While its income is growing rapidly (413,000 Lempiras in 1972 to 544,000 1/ in 1973), its expenses are growing even faster (481,000 to 616,000), largely as a result of higher interest charges. The implication of this deficit financing is that FACACH is not fully capitalizing the interest spread between what it pays on its loans from AID and other organizations and what it charges its member cooperatives. If the spread were regarded as income, however, FACACH would be operating at a profit.

As of the end of 1973 FACACH had outstanding 3.26 million of loans to cooperatives; the amount lent in 1973 was 2.6 million Lem-

1/ After eliminating an upward valuation of FACACH land by 24,000 Lempiras, which had the effect of cutting its loss for the year from 72,000 Lempiras to 48,000 Lempiras.

piras, of which 26% or 672,000 was for general agricultural purposes and another 273,000 Lempiras (10%) was for coffee and 16,000 (2%) for cattle. Member cooperatives had about 13.1 million of loans outstanding to individual members as of the end of the year. Various studies have shown that between 20% and 25% of member cooperatives' lending is granted for agricultural purposes and a few percent additional for livestock. Since most of FACACH's lending, as federation for agricultural purposes other than coffee is now to its own members, an unduplicated total of loan funds outstanding to the agricultural sector (aside from coffee) would not amount to much more than the total of member coop lending for agriculture. Thus the net total loans outstanding to agriculture by the federation and members combined at the end of December 1973 was around 3 million Lempiras. (Exclusive of about 250,000 Lempiras lent to FECCOAGRON Cooperatives in 1972 which remains uncollected).

It is difficult to speculate as to what extent FACACH and its members reach small farmers with this sum. In view of the large number of farmer members it is entirely credible that the majority are small in the sense of incomes of (to take an arbitrary figure) \$2500 or less; however, it is unlikely that there is significant reach downward to the lowest income levels. Indeed, a certain proportion of agricultural credit probably goes to non-farmers-- professional and commercial people who own farms primarily as investments. This has been particularly the case with respect to livestock loans.

There are two ways in which FACACH could become a more significant factor to the small farm sector. One would be as a banker to grant loans to agricultural coops (as it does now principally to coffee coops). Indeed, in the past FACACH was banker to FECCOAGRON agricultural cooperatives until 1972, when most of this group of agricultural coops defaulted on their loans. Of the 250,000 Lempiras in unpaid loans due from these coops, perhaps half may ultimately be collectible. FACACH also does some moderate lending to CONCORDE-affiliated cooperatives and similar groups. However, to build up FACACH again as a lender to agricultural cooperatives means providing it with funds for the purpose and to allow it a certain spread for its role in the lending chain. BNF and AID could well consider lending to FACACH and allowing it a reasonable spread if FACACH would lend to true small farmer coops on terms by which FACACH assumes the risk on its relending. FACACH currently has an OPIC guarantee and could probably secure a broader one. However, as FACACH does not show any inclination to continue to service FECCOAGRON and there are no other small farmer coops to speak of save those provided for by ENF under INA guarantee, the point currently appears theoretical.

The other respect in which FACACH can be useful is to develop a program of "credito dirigido a la producción" (directed agricultural credit). This is a program of the Latin American credit union movement, supported by COLAC, for lending funds to small farmers

in a manner analogous to supervised credit programs. Though this program has been widely adopted in other countries, FACACH has not been eager to adopt it in Honduras.

FACACH has, however, now decided to develop a small farmer program which will be something of an adaptation of the orthodox credit union directed agricultural credit program. Under this program FACACH is hiring five agronomists who will be stationed in five districts of the country. Each agronomist, working with the local credit unions, will initially select five groups with which to work. These groups may or may not include current members of credit unions. He will be assisted by one auxiliary (to be trained in a 4 to 6 month course in a Honduras institution) to help him with each group. The costs of this personnel will be provided by the Inter American Foundation. The loan funds for the cooperative groups are to be sought from the BNF. The program might initially serve from 1000 to 2000 farmers but grow by the end of the four year period to something like 8000 --if enough financing can be secured. Early credit needs should be around a million Lempiras but grow over the period to about four times that sum.

At the present time FACACH is flexible as to the types of groups that will be served. It is prepared to consider programs involving either groups of independent farmers or communal farmers or projects in which new communal farms (possibly with rented land) are started or even to consider other forms of group production or marketing activity. This FACACH plan differs from the usual system of credit union "credito dirigido a la producción" in two respects: First, it will not require that participants be limited from the outset to loans of a certain multiple of pre-existing deposits in a credit union. Second, its willingness to consider and even organize communal farming is a unique departure. FACACH will, however, require the participants or the groups to capitalize 10% of their loans as shares in the credit union, which is the standard procedure for capitalizing credit union directed agricultural credit programs. FACACH hopes to make the program self-supporting over time when the IAF assistance runs out. There is no specific provision in its plan for marketing/input services.

4. CONACAL: National Cooperative Plan of ANACH

The Asociación Nacional de Campesinos (ANACH) is Honduras' largest campesino movement. Affiliated with the labor movement, it is strongest in the north of the country and claims a membership up to 80,000, of which perhaps a fourth or fifth is really active.

ANACH established a National Campesino Cooperative plan in 1967. This plan is organized along typical cooperative lines with a general assembly, vigilance committee, etc. However, it is a unitary cooperative and individual groups are organized simply. Each group has a key man to work with the Plan's staff and with the DESAGRO

extensionist. Some groups farm in common and others individually.

CONACAL currently has a total of 45 groups involving 1600 campesinos. Most of these groups are very marginal farmers with uncertain land tenure.

CONACAL began with a small rotating credit fund from donations from AID, AIFLD, ANACH and the Government of Honduras, from which it gained experience and accumulated small financial losses. For some time it has been using funds provided by BNF and currently has a 500,000 Lempiras fund to draw on for general purposes, plus a special credit of 500,000 Lempiras recently granted for a bee project. CONACAL apparently makes a conscientious effort to utilize this credit prudently and each individual loan is approved by BNF. About a third of the credit is past due. The reasons for delinquency according to CONACAL reports -- which are good and informative -- and statements of its director) are chiefly the following:

1. The CONACAL groups often have uncertain land tenure and in the past some groups have been put off their land by INA with loss of crop and dissolution of the group.
2. Many loans have been made for rice, corn and beans, on which CONACAL concludes that investment is always hazardous (a conclusion which conforms to judgment of DESAGRO extensionists interviewed in the south) and impossible under past BNF price support policies. CONACAL considers BNF's willingness to grant questionable loans for these products contradictory to its price support policies. CONACAL would prefer currently not to put out further money for these crops or take on additional groups growing them. (It is not clear, however, whether CONACAL has fully considered the implications of BNF's recently announced change in policy). Problems have been complicated by climatic factors resulting in loss of crops, and the business is too marginal to make recuperation in subsequent years easy.
3. A number of loans have been for tractors and other capital investments in terms too short to avoid delinquencies, though these debts are being paid more gradually.

All CONACAL groups are served by DESAGRO extensionists, CONACAL expresses itself as fully satisfied with DESAGRO's services and regards DESAGRO as a fully group-oriented extension service.

CONACAL is more interested in doing its job well than in expanding its scope. It has limited interest in obtaining additional loan funds until it is capable of employing more staff. It is more interested in working with currently seasoned groups to put them into more profitable operation than to serve additional marginal groups on corn and beans. The parent organization, ANACH, of course is substantially involved in working with INA and DESAGRO to try to get

land and services for ANACH subsections throughout the country.

CONACAL has some income on profits from fertilizer and other sales, a three percent margin between ONF's 6% charge to them and 9% charged to the groups, plus some financial support from ALFAL and ANACH.

ANACH and CONACAL have practically no relations with other cooperative and similar organizations throughout the country and follow a very independent course. In the past it did work with FEEOAGROH in pooling orders for inputs.

5. Federación de Cooperativas Agrícolas de Honduras (FEEOAGROH)

FEEOAGROH was developed under an AID project begun in 1967. The aims of the program were to organize small farmers --specially farmers operating individually, whose principal crops were grains, and to increase their incomes by providing a full range of technical assistance, credit and marketing/input services. FEEOAGROH united a number of pre-existing cooperatives and embarked on extensive organization of new ones.

A critique of the FEEOAGROH project in a 1971 AID evaluation was as follows:

"One of the major problems of the organization would appear to be that it consists of many small groups at widely dispersed locations. The sheer burden of holding together an organization of 3196 members divided into 78 groups will doubtless be a continuing problem. The federation's staff of 14, plus 12 Peace Corps volunteers and two ACIDI technicians add up to 28 people. With most of the staff based in Tegucigalpa or traveling back and forth from one small group to another, and with much attention devoted to organizational concerns and bookkeeping, the question may be raised whether the project might not better have been launched by working with a group of farmers of equal number concentrated in a more restricted geographical area".

By 1972 FEEOAGROH reached a zenith of 34 cooperatives and pre-Cooperatives with claimed membership of 4421, or an average of 130. It had, however, developed very little by way of a package of - services for its members. In addition to administrative support, AID did earmark \$1.5 million of AID loan 522-L-018 for agricultural cooperative activities (\$756,000 for production credit and \$744,000 for use by FEEOAGROH for storage, marketing and processing of basic grains). These funds were to be routed through the credit union federation, FACACH. FEEOAGROH did receive from FACACH 499,000 Lempiras of production credit in 1970 with 99,774 Lempiras delinquent on repayment. It received 425,000 Lempiras in 1972, with delinquency of 320,000 Lempiras resulting. This poor result was largely caused by a drought outside FEEOAGROH's control but administrative deficien-

cies were also blamed. In any event FACACH and FEEOAGROH declared most borrowing cooperatives of FEEOAGROH ineligible for further borrowing. Meanwhile, owing to the development of BNF grain marketing facilities and policies, it was decided that the \$744,000 grain marketing plan would not produce enough income to cover FEEOAGROH's operating expenses and make it self-sufficient.

Under these circumstances AID saw no advantage in continuing to cover FEEOAGROH administrative costs, withdrew its support, and reallocated the \$744,000 grain storage, processing and marketing funds for the cooperative window of BNF for other purposes.

FEEOAGROH, now essentially without resources, is being administered by Fomento Cooperativo, which is working particularly with 13 of the best cooperatives and hopes over time to salvage appreciably more. (There are also a few older ones which have substantial capital and are self-reliant). 1/ The 320,000 Lempiras of delinquencies have thus far been reduced to about 250,000. Fomento Cooperativo hopes to reduce delinquency progressively to 33,000 Lempiras by 1978, but lack of further credit is weakening the cooperatives and their capacity to repay.

For the period 1974 to 1978 Fomento Cooperativo estimates the credit requirements of the 13 coops on which it is concentrating attention as follows:

1974	140,000 Lempiras
1975	550,000
1976	605,400
1977	664,500
1978	773,000

Fomento Cooperativo hopes to obtain these funds in part from FACACH and in part from BNF. With the revised grain policies of BNF new lending to FEEOAGROH cooperatives selected for assistance and credit supervision by Fomento Cooperativo would appear feasible. The amount per capita based on about 2,400 cooperative members are only two or three hundred Lempiras, a modest fraction of proposed credit levels for asentamientos.

Fomento Cooperativo is also interested in basically restructuring FEEOAGROH in a manner which will increase its efficiency and its outreach to small farmers both in terms of numbers of farmers and range of service. Its plan is essentially to consolidate cooperatives and to have each function on a zonal basis with less formally structured sub-groups in each community. Areas in which it believes that concentrated effort with a new plan would be particularly warranted are in the Danli, Progreso (near San Pedro Sula) and -

1/ The largest and financially strongest has just participated in organizing the new sugar cane cooperative federation.

western areas. Fomento Cooperativo has requested assistance for this developmental work from Volunteer Development Corps (VDC) in the United States, which it is understood plans to send an expert to Honduras for the job.

Fomento Cooperativo is also giving considerable attention to improving the market opportunities of the cooperatives. There is a small input supply store in Banli, which it hopes to develop further and duplicate in other areas. Another project has been organization of Cooperative Industries of Honduras, Ltda., affiliated with FECOAGROH, which has a plant starting operation for the processing of miel de maiz and almidon. It is said that this project can provide a secure market for much of the corn produced by 3000 small farmers. Another plan, which Fomento Cooperativo has under study by Centro Cooperativo Técnico Industrial, an agency of the Ministry of Economy and Finance, is a vegetable marketing project.

FECOAGROH is important because its field of activity is working essentially with small independent farmers who farm individually rather than communally. There is no other organization that has this emphasis. Further, the custodianship of FECOAGROH by Fomento Cooperativo appears sound and its basic plans for the organization are commendable. Accordingly FECOAGROH should not be regarded as a failure to be swept aside but as a base on which to build a solid center of the cooperative movement which is broadly open to all small independent farmers regardless of their other affiliations.

6. FECORAH (Federación de Cooperativas de Reforma Agraria Hondureña)

FECORAH was established in 1970 but only this year received juridical personality. It consists of about 60 cooperatives and pre-cooperatives organized under INA's land resettlement program. It has apparently recruited a few other groups. Membership is reported at 2300 farmers cultivating about 26,000 hectares.

The FECORAH cooperatives either have or are acquiring juridical personality. Organized by INA, they continue to receive technical assistance from INA agronomists and INA cooperative promoters. While INA has provided a good deal of cooperative training for these groups, it has not apparently provided standardized systems of administration and accounting. Some of the more prosperous cooperatives reportedly use IBM for accounting; others collaborate in hiring an accountant, other operate on their own. According to Fomento Cooperativo the accounting of INA cooperatives is so inadequate that there is not a sufficient basis on which to make an audit.

The FECORAH cooperatives obtain loans from BNF under a guarantee from INA. INA would like to give up its guarantee and shift full responsibility to BNF.

INA holds about 1,200,000 lempiras in debts, all in default, on its own direct lending to FECORAH cooperatives. Some part will presumably be uncollectible owing to demise of the cooperatives concerned.

There are reportedly a few INA cooperatives that are considered poor credit risks and receive no loans from any source. Indeed, on occasion INA will place a cooperative in liquidation, take back the land from the existing group members and give it to a group INA considers more responsible.

In the view of INA too little credit is available to the coops from BNF for long-term development.

It is not yet clear what purposes FECORAH is to serve beyond the basic thought that cooperatives should be united in the form of a federation. The individual cooperatives, while disposed in principle to be part of a federation, have little idea what to ask or expect from FECORAH; they haven't seen anything yet.

Lacking significant financing and with only a four-man staff, FECORAH is not in a position to do much. It would like to launch projects with its member cooperatives such as a major pineapple cultivation and marketing project (1.5 million lempiras) and facilities consisting of two granaries including two dryers (800,000 lempiras).

As a federation uniting many cooperatives engaged in communal farming, FECORAH presumably has a significant role in furthering the spread and interchange of techniques to make communal farming more effective. In time it could well unite also the new asentamientos which have the same system of farm operation as the land resettlement cooperatives, though hopefully a system will be designed by which each asentamiento does not have to go the full route of acquiring juridical personality as a cooperative under existing law. As of the moment, however, FECORAH is young and its future role uncertain.

APPENDIX II

REGLAMENTO DE LA OFICINA DE COORDINACION DE ASOCIACIONES COO-
PERATIVAS Y CAMPESINAS

CAPITULO I

ORGANIZACION

- Artículo 1º** El presente reglamento establece las funciones de la Oficina de Coordinación de Asociaciones Cooperativas y Campesinas del Banco Nacional de Fomento.
- Artículo 2º** La Oficina estará adscrita a la Gerencia del Departamento de Créditos y Operaciones del Banco Nacional de Fomento.
- Artículo 3º** La Oficina estará a cargo de un Jefe que será nombrado por la Junta Directiva a propuesta del Gerente de Créditos y Operaciones.
- Para el mejor desempeño de sus tareas podrá efectuar sus actividades por medio de secciones especializadas, las que se irán creando a medida que el volumen de operaciones lo vaya justificando.
- Artículo 4º** En caso de ausencia del Jefe de la Oficina, lo sustituirá el empleado que la Gerencia de Créditos y Operaciones designe.

CAPITULO II

F U N C I O N E S

- Artículo 5º** Las funciones de la Oficina serán:
- a) Servir de dependencia de enlace y coordinación entre el Banco Nacional de Fomento y las Federaciones de Cooperativas, Cooperativas, Asociaciones Campesinas y otras organizaciones afines, especialmente en todo lo relacionado con la canalización del crédito agropecuario e industrial a través de este tipo de empresas.
 - b) Asesorar a las Federaciones, Cooperativas y Asociaciones Campesinas, cuando ello sea necesario, o a petición de las mismas en lo relativo a la mejor forma de presen-

tación de sus solicitudes de crédito, prórrogas, modificaciones, etc., para lograr una mejor y más rápida atención de sus asuntos.

- c) Atender a las organizaciones cooperativas o campesinas en la solución de sus problemas crediticios o de cualquier otra índole que tengan con el Banco, realizando las gestiones necesarias ante las dependencias pertinentes de esta Institución.
- d) Recomendar al BNF la adopción de políticas, normas o disposiciones que considere necesarias para impulsar y facilitar la canalización del financiamiento a las Cooperativas, Asociaciones campesinas y organismos afines.
- e) Procurar dar o gestionar que organismos públicos o privados especializados den asistencia técnica y administrativa a las Cooperativas y asociaciones campesinas, para que éstas mejoren sus métodos y procedimientos de trabajo.
Para lo anterior, coordinará sus actividades con aquellos organismos que tengan a su cargo el fomento, supervisión o asistencia técnica, económica y administrativa a cooperativas, asociaciones campesinas y otras afines.
- f) Cooperar en todo lo que esté a su alcance con los organismos mencionados en el inciso anterior, para la organización de los beneficiarios del crédito del BNF en cooperativas o asociaciones similares, cuando tales beneficiarios manifiesten su deseo de agruparse.

Artículo 60

El Jefe de la Oficina será responsable por el debido ejercicio de la autoridad sobre el personal subalterno y porque se cumplan las funciones de la Oficina a su cargo, para cuyo efecto, entre otros, realizará directamente o por medio de su personal, las siguientes actividades:

- a) Emitir el dictamen correspondiente sobre aquellas solicitudes de crédito, modificaciones, prórrogas, etc., que sometan las Cooperativas o Asociaciones Campesinas y que por su complejidad e importancia le remitan la División de Créditos de la Oficina Central o las Agencias.
- b) Prestar, cuando ellas lo soliciten, asesoramiento a las cooperativas y asociaciones campesinas y organizaciones afines en la formulación de solicitudes de crédito ante el Banco, o en la resolución de otros

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problemas que las mismas planteen.

- c) Llevar un historial de los datos más importantes de las cooperativas y asociaciones campesinas prestatarias del Banco (nombre y dirección, número de socios, aspectos constitutivos, actividad, capital social, estado financiero, monto, plazo, destino, garantía del crédito, amortización acordada y efectuada, experiencias anteriores, etc.).
- d) Requerir, periódicamente, de las asociaciones financiadas por el Banco, que remitan toda información necesaria para conocer el resultado del proyecto financiado; asimismo, los datos y comprobantes sobre su situación económica, para que con base en el análisis de dichos datos se hagan las recomendaciones que el caso amerite. Recopilar tales datos en estadísticas pormenorizadas.
- e) Preparar anualmente el presupuesto de la Oficina.
- f) Colaborar con la División Técnica del Banco en la elaboración del Plan Crediticio para las asociaciones cooperativas, campesinas y otras afines.
- g) Rendir a la Gerencia de Créditos y Operaciones informes trimestrales de las actividades de la Oficina.
- h) Efectuar evaluaciones semestrales sobre las actividades y operaciones de la Oficina, sugiriendo la adopción de medidas tendientes a mejorar la labor de la misma.
- i) Colaborar en gestiones del Banco tendientes a obtener recursos adicionales para el financiamiento de asociaciones cooperativas, de campesinos y otras.
- j) Participar en programas educativos y de adiestramiento para gerentes y personal administrativo de cooperativas y asociaciones afines, especialmente con respecto al uso del crédito y administración de recursos financieros; y
- k) Otras actividades necesarias para cumplir con las funciones de la Oficina a su cargo.

CAPITULO III

DISPOSICIONES GENERALES

Artículo 7º Mientras se logra el desarrollo paulatino de esta Oficina, la

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Campesinas.

recepción, examen y resolución de las solicitudes de crédito presentadas por las Federaciones, Cooperativas y Asociaciones Campesinas, así como su administración y control, serán atendidas por las dependencias regulares de crédito del Banco.

Artículo 8º Este Reglamento entrará en vigencia a partir de la fecha de su aprobación por la Junta Directiva del Banco.

APPENDIX III

TYPES OF PROJECTS AVAILABLE FOR CONSIDERATION FOR FINANCING UNDER
 PROPOSED SMALL FARMER COOPERATIVE CAPITAL DEVELOPMENT FUND

The following is a summary of demand for long term loans over a time period of about one year (or in some cases up to two years) insofar as it could be ascertained from a canvass of the various principal organizations likely to apply for loans or to support loan applications from farmer groups:

<u>Organizations</u>	<u>Indicated Demand</u>
1. IMA Cooperatives and pre-coops	\$ 300,000
2. FECONA ^W Agricultural Coon Federation	1,150,000
3. Asentamientos	300,000
4. ANACH COMACAL Plan	200,000
5. Fomento Cooperativo and FECONAGROB	1,000,000
6. FUNDHESA	1,250,000
7. Cooperative Marketing Union Projects	600,000
	<u>\$ 4,800,000</u>

There is, of course, considerable variance as to the probable soundness of the various projects that are being proposed and as to their probable impact in helping small farmers. Some doubtless should be scaled down to a pilot basis to establish viability before extensive commitments were undertaken. The purpose of the capital development fund will be to encourage the study of projects to the point that their feasibility can be gauged and the best among them selected for early financing.

There exist various facilities in the country that can assist in determining the feasibility of projects. These include DESAGRO (extension service) and the Centro Cooperativo Técnico Industrial of the Ministry of the Economy. The latter is an organization of about 42 people concerned with small industry, of which agro-business is particularly important. In addition the AID cooperative program now being proposed would provide significant technical assistance in the development of sound marketing projects. Finally, technical assistance being provided to the OPS on project development and implementation will also be available to support this activity.

1. IMA Cooperatives

Interviews with IMA personnel brought out that one of the chief credit complaints was the lack of credit for capital development.

projects. BNF is considered to place an over-emphasis on the financing of annual crops to be secured by harvests and is unwilling to provide longer term capital needed for the purchase of land and development of more profitable farm activities. IIA officials assert that this defeats the objective of bringing cooperatives to the point of financial self-sufficiency so that they could operate with considerable independence of annual production credit. IIA itself has in the past provided up to about 2,500,000 Lempiras for credit for cooperatives by developing loan funds slowly from out of its annual budgets; however, it has discontinued this practice, and its own loans appear in large measure to have gone to meet the annual production expenses of cooperatives that BNF considered unsatisfactory credit risks. Among the types of capital investment IIA considers practicable and desirable are the following:

- Clearing and preparation of land.
- Purchase of machinery, equipment and fencing.
- Irrigation for sugar cane, rice, etc.
- Other water supply equipment.
- Livestock (cattle, hogs, etc.)
- Development of African Palm and Citrus.

Assuming modestly that six IIA cooperatives (about 10% of total) would develop and justify six viable capital development projects in the space of a year, there would be a demand of around \$300,000.

2. FECORAH

In an interview with FECORAH it was established that essentially all the projects this federation of IIA cooperatives currently seeks financing for represent long term investments. The following were cited:

- Two graneros including two dryers --- Lempiras 800,000.
- Pineapple production and marketing project - Lempiras 1,500,000.

FECORAH also asserted that many of its coops had smaller production projects for which BNF was inattentive.

3. Asentamientos

A short ATAC team field trip to a half dozen asentamientos in the south of Honduras brought out the desirability of studying the feasibility of the following types of small capital development projects with a view to achieving a worth-while income base:

- a) Several asentamientos have considerable tracts of land lying along rivers. The use of much of their land for annual crops is dangerous owing to probability of flooding. The land, however, would appear very suitable for pasture if capital were available for a herd of cattle. Also noted was that one cotton cooperative allows use of its land for forage by privately owned herds during a portion of the year, for which it receives a small payment and some natural fertilizers from the pasturing animals. A livestock asentamiento could presumably work out similar deals with nearby cooperatives and asentamientos of other types.
- b) Other asentamientos had good farm land on high ground above the river. This would appear economically feasible for rice and other crops.
- c) A major project of DESAGRO in the south is the supply to farmers of cashew plants on which potential return is considered favorable. Asentamientos could capitalize surplus labor in developing this crop, while at the same time covering living expenses with their annual crops.

Assuming that eight asentamientos (one in 15 of those now existing) could develop, with the assistance of the DESAGRO extensionists working with them, good viable capital projects in the course of a year, there would be a demand on the order of \$300,000.

4. ANACH - COMACAL

COMACAL is devoting major attention to developing projects that will improve the income base of the groups it is servicing rather than to spread itself thin with risky credit over corn, beans and rice. Among its current and prospective projects are the following:

- a) One group proposes to build simple old-fashioned drilling rigs and sell its services developing wells for water supply for small communities. This service could be extended to farm groups for agricultural purposes if they could afford the capital investment. It is understood that the COMACAL groups guarantees it will find water, and provides a cheaper service than is otherwise available.
- b) A COMACAL group is currently marketing various vegetable and fruit preserves popular in the country. It needs capital for a small facility with cement floor and other sanitary features in order to be able to sell through "super-mercados", (mainly moderate-sized grocery stores) which are important urban outlets.

- c) CONACAL requires very substantial capital for projects which involve considerable irrigation and other farm development expenses. One project (Las Cañas) would involve irrigation for a 215 hectare farm to produce rice, tomatoes, beans, and onions. A feasibility study has been prepared with projections showing that an annual net return of over 300,000 Lempiras could be realized on an investment of 463,000 Lempiras (of which about half would be for long-term capital and the balance annual working capital). The group consists of 80 campesinos for whom land has already been purchased; the need now is to put it to use.
- d) CONACAL has various groups for which long-term financing is desirable to diversify their agricultural base to include fruit, citrus and other permanent crops.

In total the CONACAL demand for long-term funds over a year could exceed \$200,000.

5. FOMENTO COOPERATIVO AND FECOAGROH

These organizations have been developing a number of projects, of which the following are of particular importance:

- a) Forestry cooperatives. FOMENTO COOPERATIVO is developing a program of organization of forestry cooperatives in association with the Honduran Corporation for Forestry Development (CONDEFOR) through a mixed commission of the two agencies. They believe that they can achieve an ultimate goal of 70 cooperatives covering 15,000 campesinos in a considerable range of wood products. Thus far FOMENTO COOPERATIVO has formed 16 forestry pre-cooperatives consisting of 1132 campesinos. The purpose of these pre-cooperative groups is to produce resin and oil of turpentine, for which it is said there is a market with three companies. The groups would work three months of the year in forestry and the balance in agriculture. Materials needed by the groups for treating trees would require an expenditure of \$900,000. This is based on an estimated cost of Lempiras 3.30 for the treatment of each tree.
- b) Fiber production cooperatives. FOMENTO COOPERATIVO has formed eight pre-cooperatives consisting of about 300 families which are engaged in collecting fibers, particularly henequen, junco and ramio, and fashioning them into hammocks and other products. The people are working on poor dry land, little suited to food production. While some fibers grow wild, the groups are beginning to sow henequen in particular; it requires five years of care before the plants yield. The groups need some capital to cultivate fibers and to obtain equipment.

- c) FOMENTO COOPERATIVO is working with two cacao cooperatives that wish to develop facilities for the marketing of their production. Good marketing arrangements might also serve as a basis for some further long-term investment in cacao production.
- d) Vegetable marketing. FECOAGRON is developing a project with five cooperatives to market vegetables. This project is under study by the Centro Cooperativo Técnico Industrial of the Ministry of Economy. The plan would require a modest capital to engage in trading operations, essentially purchase of vegetables from farmers and their resale to distributors, retailers and institutional consumers.

6. FUNDHESA

Most of FUNDHESA's relatively limited investments thus far in the field of agriculture have been for capital intensive projects. FUNDHESA has purchased land to provide a farming base for several groups of campesinos. It has done this by putting up equity capital while arranging loans from other sources. In order to turn its money over faster, FUNDHESA arranges for repayment of its equity contribution (which is in the nature of a second mortgage) faster than the long-term mortgage. FUNDHESA will buy land only for well-organized, disciplined groups (presumably IIC groups) in which it has confidence. While an AID-financed fund would not be available for real estate purchases, this is an example of the possibilities of financing land capital improvement in conjunction with another organization that has capabilities to arrange for land financing.

FUNDHESA has also provided financing for capital development for a number of groups with respect to such things as machinery and livestock. The machinery is used by groups not only on their own land but also by contracting out their services to other groups and to individual farms. Over the next year FUNDHESA estimates its capital demand as follows:

Livestock	\$ 90,000
Equipment (machinery, tractors, water pumps, etc.)	160,000
	<u>\$250,000</u>

7. Marketing Cooperative Union (or similar institution)

The former manager of FECOAGRON, now responsible for basic grains in Banco Nacional de Fomento, states that FECOAGRON's original grain handling program, involving the construction of substantial storage facilities, is no longer appropriate in view of the BIF monopoly of

export markets and possession of adequate grain storage facilities for the country. Nonetheless, he believes (as do ECHOACOP's current management) that cooperatives have an important role to play in grain marketing. Without the necessity of building major facilities, they can organize the purchase of grains from farmers and store them at modest rental in the DIF facilities. In this way they should be able to capture for the farmers considerable profits that are now siphoned off by middlemen. He points out further that cooperative marketing plans could help the farmer through standardizing weights and measures and using honest scales (instead of one for buying and another for selling). These points were concurred in by IIA and other observers.

If sufficient volume can be developed in rice, a cooperative rice mill might be not only a paying proposition but also a means of exerting competitive pressure on private millers, who are widely believed to maintain generous margins.

Assuming that a marketing cooperative would begin with a modest grain handling program to serve up to 10,000 farmers, its immediate capital needs should be something on the order of \$200,000. For a moderate program of supplying inputs to agricultural cooperatives an initial capital of \$100,000 should be sufficient but could quickly build up to a need for double this amount within a year's time to permit the handling of a wider range of products. (In this connection it is important to note that profit margins will probably be much higher in handling such items as fencing materials, sprayers, water pumps, and other hardware than on volume sales of fertilizers and pesticides). If the cooperative market union should proceed to the point to establishing a rice mill, another \$100,000 of investment would be required. Another project that would likely be feasible at an early date would be bean cleaning and packaging facilities; these could involve a capital need of \$100,000. Therefore, while immediate priorities might be somewhat different from those assumed in this paragraph, it is not unlikely that an agricultural cooperative union could generate a demand for up to \$600,000 in capital during its first two years of operation.

**DOCUMENTO SOBRE POLITICA DEL BANCO NACIONAL DE FOMENTO PARA OPERACIONES
DE CREDITO A ASOCIACIONES COOPERATIVAS Y CAMPESINAS**

I. PRINCIPIOS BASICOS

- A. El Banco Nacional de Fomento continuará dando su ayuda financiera a las Asociaciones Cooperativas, Campesinas, Federaciones de Cooperativas y otros afines, por medio de créditos que procuren contribuir al fortalecimiento económico de las mismas en particular y del país en general, y para alcanzar el progreso y bienestar social del pueblo hondureño.
- B. Para lograr el cumplimiento de lo contemplado en la letra anterior, el Banco Nacional de Fomento hace suyo lo dispuesto en el Artículo 27 de la Ley de Asociaciones Cooperativas, que literalmente dice: "Las Asociaciones Cooperativas legalmente constituidas se declaran de conveniencia y utilidad social".
- C. El Banco Nacional de Fomento para atender el gran número de pequeños productores que no tienen acceso al crédito regular del mismo, por las condiciones en que viven y trabajan, canalizará su ayuda crediticia en escala creciente por medio de Cooperativas y otras formas de organización rural.
- D. Con el objeto de reducir sus costos y hacer más eficaz la administración del crédito, conviene al Banco conceder éste en cuantías cada vez mayores a las Cooperativas que den evidencia de que sus respectivos subpréstamos son otorgados con condiciones y términos justos.
- E. Siendo el Banco una Institución del Estado, creada para contribuir al fomento de la producción del país y para elevar el nivel de vida de la población, usando para ello recursos que en su mayor parte provienen del sector público y están avalados por el Gobierno de la República, no debe permitir operaciones de crédito con Asociaciones Cooperativas, Campesinas y otras afines a éstas, que sufran pérdidas cuantiosas que perjudiquen al Banco en particular y al país en general, como asimismo a aquellos prestatarios que sí cumplen cabalmente con las obligaciones contraídas en esta Institución.

II. NORMAS

En el futuro el Banco concederá créditos a Asociaciones Cooperativas, Campesinas y a otras afines a éstas, cuando concurren los siguientes requisitos:

- 1º Que las solicitantes y sus asociados se dediquen exclusiva o principalmente:

Documento Política del BNF para Operacs. a Asoc. Cooperativas y Campesinas

- a) A la producción agropecuaria, forestal, pesquera o mineral;
 - b) Al procesamiento o industrialización de productos derivados de la agricultura, ganadería, avicultura, pesca o minería;
 - c) A la comercialización y transporte de los productos indicados en las letras anteriores;
 - d) Al suministro de maquinaria, equipo y artículos de insumo que se necesiten para la producción agropecuaria, forestal, pesquera o minera; y
 - e) A la introducción de mejoras como riego y drenaje, perforación de pozos para agua, rehabilitación de tierras, reforestación y construcción de viviendas rurales.
- 2º Que las solicitantes dispongan de una adecuada y eficiente administración para el manejo de sus negocios y de los créditos que obtenga del Banco. En caso de que lo amerite, el Banco podrá ampliar el monto del crédito solicitado con una partida destinada exclusivamente para atender el pago de sueldo de un administrador especial o Gerente que sea idóneo y capaz profesionalmente a juicio del Banco, e incluso el BNF podrá intervenir la Asociación prestataria hasta la recuperación total de lo adeudado.
- 3º De las solicitudes de crédito de toda Asociación Cooperativa o de Campesinos presentadas en la oficina principal o en las agencias del Banco, se enviará copia a la Oficina de Coordinación de Asociaciones Cooperativas y de Campesinos.
- 4º Esta Oficina prestará asesoría técnica y administrativa a las Cooperativas y Asociaciones y a otras afines que sean prestatarias del Banco; sin perjuicio de la asesoría que al respecto las mismas recibían de parte de instituciones privadas o estatales.

III. INTERESES, PLAZO, MONTO Y GARANTIAS

- a) La Junta Directiva, según lo dispone el Artículo 45 de la Ley del Banco, y por recomendación debidamente justificada por la Gerencia de Créditos y Operaciones, podrá fijar intereses, comisiones o recargos especiales a efecto de que las asociaciones objeto de este documento puedan refaccionar a sus miembros con puntos de diferencia a su favor para la atención de gastos de administración.
- b) Dentro de los plazos y las garantías que la Ley del Banco señala para los distintos créditos se podrá, previa aprobación de la Junta Directiva, conceder montos, plazos y márgenes de garantías preferen-

Documento Política del BNF para Operacs. a Asoc.Cooperativas y Campesinas

ciales para las Asociaciones Cooperativas, Campesinas y las afines a éstas, dependiendo de las características de las explotaciones a financiarse.

Para créditos de Avío (corto plazo) podrá aplicarse en casos específicos, el sistema de renovación automática del préstamo.

- c) Las Asociaciones Cooperativas y de Campesinos y las afines a éstas, no podrán gozar de las facilidades referidas en las letras anteriores, cuando no se encuentren al día en el pago de sus obligaciones con esta Institución; sin embargo se podrán acordar nuevos financiamientos, refinanciamientos o prórrogas, cuando los motivos de la mora no sean imputables a la asociación prestataria.
- d) Toda asociación que reciba financiamiento de esta Institución deberá, en lo posible, efectuar sus operaciones bancarias con esta Institución. Lo anterior se tomará en consideración al tramitarse futuras solicitudes de financiamiento a tales prestatarias.
- e) El Banco por medio de su Oficina de Coordinación de Asociaciones Cooperativas y Campesinas procurará obtener de las instituciones que tienen a su cargo el fomento de las cooperativas y asociaciones afines, todo apoyo y cooperación para el trámite correcto, el uso adecuado y la recuperación puntual de los préstamos otorgados.
- f) El Banco por medio de sus dependencias especializadas procurará asistir a las Cooperativas y Asociaciones en la obtención de los elementos de trabajo y de insumos que necesiten, así como en la comercialización de sus productos.

IMPROVED SEED ACTIVITY

- A. PURPOSE: To provide an adequate supply of seed of improved varieties of basic food crops for use in expanded agricultural service and assistance programs for small farmers.
- B. BACKGROUND: In the mid 1960's AID donated equipment valued at \$100,000 to the Ministry of Agriculture for the installation of two seed processing plants, one in Tegucigalpa and one in San Pedro Sula. This was complemented by approximately \$200,000 in land, buildings and installation costs financed by the GOH. During the first few years of operation the plants had a significant impact on the use of improved seeds of basic grains (corn, beans, rice and sorghum). In 1970, however, with the centralization of DESARRURAL (the extension and research service), administrative problems and budgetary cuts severely curtailed operations of the seed program.

Although the administrative problems encountered as a result of centralization of DESARRURAL (now DESAGRO) have not been fully resolved, their magnitude has diminished. Furthermore, the formalizing of a close working relationship that has developed between the Ministry and the BNF will eliminate serious problems that have existed since 1970. For example, the BNF will manage a new revolving fund for the purchase of improved seeds from contract producers. Funds generated through the sale of seeds will be deposited into the same account, thus eliminating the requirement for an annual budget allotment.

- C. RATIONALE: In the implementation of the National Development Plan the expanded agricultural services will concentrate on assisting organized groups of small farmers. Since in many cases technical assistance will be directly tied to production credit and other inputs, the extensionists will be in an ideal position to encourage the use of high quality seed of superior varieties by farmers affiliated with the organized groups. Such seed is an important ingredient in existing technological packages.

It is estimated that less than 4% of the small farmers of Honduras used improved seeds of basic grains in 1973. In the expanded program the use of improved seeds will be combined with improved land preparation techniques, the use of chemical fertilizers and pesticides and improved cultural methods. Also, where climatic conditions permit, double cropping and/or compatible crop mixes will be used in order to maximize returns and the utilization of rural labor.

In 1970-71, DESARRURAL made an economic evaluation of its seed production program with assistance of the FAO and identified major problems as follows:

- (1) Insufficient funds to contract with private seed producers, and administrative bottlenecks in providing prompt payments for seeds produced under contract with the result that many seed producers withdrew from the program;
- (2) A shortage of GOH funds to make essential repairs to the plants, and to provide for miscellaneous equipment and supplies;
- (3) A shortage of supervisory personnel and transport facilities to supervise properly operations of contract seed producers;
- (4) Shortcomings in the adaptive research program, due to shortages of funds and facilities, which resulted in insufficient foundation seed stocks (both quality and quantity);
- (5) Prices paid to contract seed producers were, in many instances, insufficient to attract contractors, while, in other cases, the contracted seed crop was sold on the grain market as price rises occurred between the time of contracting and harvesting; and
- (6) High unit cost of seed, which was mostly absorbed by DESARRURAL, resulting from substantial under-utilization of capacity of seed plants and personnel.

D. PROJECT DESCRIPTION: The present project addresses both the major problems identified from the evaluation of the seed program and the need for greater quantities of improved seed for the expanded service and assistance programs for small farmers. It provides for:

- (1) An extra-budgetary mechanism in the form of a revolving fund to ensure adequate financing for programmed contract seed production with private farmers, and timely payments at premiums over established grain prices sufficient to attract and maintain producers;
- (2) Adequate funds to permit essential repairs to seed plants, replacement of worn-out equipment, and aquisition of needed accessories;
- (3) An increase in operational funds needed to overcome shortages in personnel and travel budget permitting proper and timely supervision of seed multiplication and production (training requirements will be met through the academic and in-service training activity of this loan);
- (4) A phased increase in seed production-processing over next 4 years (through 1978) that will bring seed plants, up to nearly 100% of capacity with attendant opportunities for very substantial gains in efficiency (lower units costs for seed produced and processed); and
- (5) Mechanisms through the production credit programs that should ensure utilization (sale) of increased quantities of seed produced and processed.

1. Operational Procedures:

Considering that the two established seed processing plants operated only at approximately 20% of capacity in 1973, the logistic and technical problems involved, and the difficulty of the task of convincing small farmers of the benefits to be derived from the use of improved seeds, it is necessary that increased production and utilization of improved seeds be gradually phased over the next 4-5 years.

This project will be under the direction of DESAGRO. It has personnel that are trained and experienced in the multiplication and production of improved seeds and in seed drying-processing-storage operations. Breeder and/or foundation seed material will be secured in part from such institutions as CIMMYT (Mexico), C.I.A.T. (Colombia), neighboring Central American countries and the United States (in the case of hybrid sorghum for example). Varietal research trials will be conducted within Honduras at appropriate regional experimental stations. Varieties that show high performance will be multiplied in small quantities at the experimental stations and/or through special arrangements with selected farmers. Contracts for improved seed production at a commercial level will be made between DESAGRO and selected farmers (perhaps not more than 50 for the entire program). Contract prices for seeds produced will be negotiated prior to planting. Prices paid by DESAGRO to contractors will be based on BNF purchase prices at the time of harvest plus a 20-25 per cent premium to compensate the contractor depending on difficulty of seed production and effort required above that for ordinary grain production. In the case of production of hybrid seed (maize, principally), the premium may have to be on order of 100%.

A committee or seed planning group consisting of representatives from the pertinent departments of the DESAGRO (Deptos. Servicios y Suministros Agropecuarios, Investigación Agropecuaria, Extensión Agropecuaria and Promoción y Ejecución de Proyectos) and from BNF, INA and other institutions as may be desirable will be organized to establish annual production schedules for commercial level seed, i.e., seed to be sold to farmers, by crop kind and variety. These annual seed production schedules will be determined well in advance of first crop planting seasons, then reviewed and revised as necessary prior to second planting season on the general basis of projections in Table 3, but specifically taking into account: (1) progress in over-all implementation of the small farmer improvement program including specific projects under this AID Loan; (2) current targets in asentamiento and cooperative programs, (3) seed stocks on hand (inventory) of satisfactory quality; and (4) a realistic assessment of demand for improved seed from all sources.

Production and harvest of the contracted seeds will be supervised by DESAGRO technicians. Immediately after

harvest DESAGRO will arrange for the seeds to be transported to one of the two processing plants located in Tegucigalpa and San Pedro Sula. These plants are (or will be) equipped with drying units, holding warehouses for un-treated seeds, processing equipment (grading, chemical treatment, packaging, testing, etc.), and with controlled storage (temperature and humidity) for processed, packaged seeds. During or after processing, the seeds are labeled by kind, variety, purity, germination, chemical treatment, etc.

It is estimated that the processing procedure will increase the costs of seeds by an additional 25% to 100% (above commercial grain price), depending on kind of seed, condition at time of delivery, distance of transport, etc.

The AID Loan fund for the revolving account for financing of seed production will be made available to the BNF with a provision that it be used exclusively for this purpose. Special arrangements will be made in order that the BNF act as fiscal agent for this special fund in behalf of DESAGRO. In the case of farmer contractors for seed production, payment will be made by the BNF directly to the farmer involved upon advice and approval of DESAGRO at the time of or soon after delivery of seed to DESAGRO. Seed distribution will be made through the approximately 60 offices of DESAGRO and the 22 branch offices of the BNF. Proceeds from the sale of seeds will be deposited in the BNF to the account of the special revolving fund. Funds in the special revolving account will be used only for payments to contract seed producers and for purchase of expendable supplies, viz., packaging materials (burlap or woven plastic bags and multi-wall paper bags); fungicide and insecticide, chemicals used to treat seed; germination test substrata; and labels or tags attached to each seed bag.

As seed production and utilization (sales) approaches 1200 MT (i.e., 25,000 qq. or more) per year in 1976-77, efficiencies gained from larger volumes of seed, better utilization of labor, and increased experience in managing and handling large quantities of seed should permit the special revolving fund also to finance day labor, travel expenses, and transportation costs, or portions thereof, associated with seed production-processing-distribution, while still maintaining a reasonable price structure for seed.

In the case of seed utilization (especially by asentamientos and cooperatives), arrangements will be made by the BNF and DESAGRO to provide improved seeds as part of the package of inputs, i.e., credit for seeds will be provided in kind.

Seed prices will be established generally on the basis of contract price paid for raw (unprocessed) seed, clean-out loss during processing, costs of expendable supplies such as fuel oil used for drying, packaging materials, seed treatment chemicals including fumigants, etc., plus at least 15% to cover losses due to reduction in quality of seed making it unfit for planting, burst bags, rodent and insect damage, etc. On the basis of 1974 costs, the current seed price schedule of DESAGRO is within satisfactory range. Present seed prices are: L.22 (rounds) and 26 (flats) per quintale (qq = 100 lbs.) of open pollinated maize seed; L.30 (rounds) and 36 (flats)/qq. for double cross maize hybrid seed; L.30/qq. for bean seed; L.30/qq. for rice seed; and L.20/qq. for sorghum seed. In line with present costs, price structure should be (approximately): L.24 and 28/qq. for round and flat grades, respectively, of open pollinated maize; L.38 and 44/qq. for rounds and flats, respectively, of double cross hybrid maize seed, reflecting 100% premium over grain price that should be paid to producers of hybrid seed; L.32/qq. for bean seed, which is not adequate but about as much as can be charged considering high seeding rate/ha., low yield, and capacity of small farmer to pay; L.32/qq. for rice seed; and L.20/qq. for sorghum seed. These prices are illustrative and applicable only within the context of current costs. They should be revised in accord with changes in base price for grain, costs of expendable supplies, etc.

It should be noted that the prices for seed, although well above equivalent prices for grain, will be actually subsidized to the extent of unit (qq.) fixed costs such as return on capital investment, permanent personnel, and variable costs such as transport and distribution expenses, travel expenses of field supervisors and inspectors, day labor, maintenance, power costs for controlled environment seed storage, etc. Further, the extent of subsidization will vary according to seed kind (greatest for bean seed and least for maize and sorghum seed). Considering the present and past levels of efficiency in seed operations, however, the only alternatives to this degree of subsidization of seed production-processing-storage-distribution are a much higher

price schedule or a purchase subsidy. The former would undermine attempts to increase utilization of improved seed, while the latter would be a dis-incentive for DESAGRO to increase the efficiency of its seed operations. It is anticipated that efficiencies gained through experience and volume - as previously mentioned - will permit a substantial reduction if not elimination of subsidization by the end of project in 1978 with retention of a desirable price schedule.

2. Scope of Project and Financial Needs:

In view of the magnitude of the planned Asentamiento Program and the difficulties involved in treating all aspects of the program simultaneously, it is obvious that during the first and second years (1975-76) of loan disbursement the seed project will not be able to meet the potential needs for improved seeds. Therefore, during the first and second years, efforts will be concentrated in those areas and to those beneficiaries (asentamientos and cooperatives) that are easiest to reach (improved seed will be made available to the asentamientos included in the model program). During the third and fourth years (1977-78) efforts will be made to expand the program to the extent needed to sustain agricultural development.

Within the asentamientos and cooperatives it is estimated that the relative percentage of hectares planted to specific basic grains will be as follows:

Corn	66%
Beans	17%
Rice	10%
Sorghum	5%
Sesame	2% ^{1/}

1/ Sesame seeds are not presently processed by the plants, however, they may be included at a later date along with soybeans and other seed crops. Nonetheless, quantities involved will be relatively small over the period 1975-78. The facilities available are adequate for other kinds of seed, i.e., wheat, sesame, soybeans, with addition of very limited equipment (screens for cleaning).

Based on the above area percentages and quantities of seeds (by types) needed per hectare (by weight), seed production by specific crop should be in the following proportions:

Corn	38%
Beans	31%
Rice	29%
Sorghum	2%

Adjustments to the above, however, will be necessary in order to reflect actual demand for specific types of seeds. For example, it may be easier to convince farmers to plant improved corn seeds than to plant improved seeds of rice or beans. Furthermore, relative genetic potentials may be higher in the case of improved corn seeds as compared to beans or rice. Prior experience will be used as a basis for these judgments.

The combined annual capacity (mixture of seed kinds) of seed plants is limited by drying capacity which is critical at about 1800 MT (39,600 qq.). Controlled environment storage for 1200 MT (about 26,000qq.) is about the maximum that can be provided in present facilities with limited investment in air conditioners, dehumidifiers and finishing of an unfinished portion of the storehouse in the San Pedro Sula facility. However, since maize is the dominant crop and two crops are produced each year, turn-over storage when re-equipped and finished should just about be adequate for 1800 MT.

Illustratively, the National Development Plan (1974-78) projects the areas to be cultivated within the asentamientos under intermediate technology as shown in Table 1, while total seed requirements are given in Table 2.

It should be noted that the calculations in Table 2 represent total seed requirements, or potential demand of 100%, a level not achieved for non-hybrid grain crops in even the most advanced countries. Seed renewal every season is neither necessary nor practical for non-hybrid grain crops. Experience has shown that farmers can "save" their own planting seed for up to 5 successive seasons without significant loss in genetic potential, provided reasonable precautions are taken. Thus, individual farmers should replace their seed with new seed at least every 5th season. For the program as a whole this amounts to a 20% annual

"seed renewal rate".

Considering plant capacities, administrative and logistic support that can reasonably be expected, the problem of farmer education, and satisfactory seed renewal rates, the following projections are made for seed production-processing for the years 1975-78, by crop (Table 3).

TABLE 1

AREA TO BE CULTIVATED TO BASIC GRAINS WITHIN ASENTAMIENTOS
 USING INTERMEDIATE TECHNOLOGY 1/

Area in (000) Hectares

CROP	1974	1975	1976	1977	1978
Corn	40.28	83.25	128.86	173.21	220.13
Beans	10.10	20.89	32.33	43.45	55.23
Rice	6.37	13.17	20.38	27.40	34.82
Sorghum	3.16	6.53	10.10	13.58	17.26
Sesame	1.29	2.66	4.13	5.56	7.06

1/ Improved seeds, fertilizers, pesticides and relatively intensified labor.

TABLE 2

QUANTITIES OF IMPROVED SEEDS NEEDED FOR THE ASENTAMIENTO
PROGRAM (1974-78)

Quantities in Metric Tons

CROP	1974	1975	1976	1977	1978
Corn	644	1,332	2,061	2,771	3,522
Beans	505	1,044	1,616	2,172	2,761
Rice	509	1,053	1,630	1,199	2,785
Sorghum	37	78	121	162	207
Sesame	5	10	16	22	28
Totals	1,702	3,519	5,446	7,328	9,304

1/ Improved seeds, fertilizers, pesticides and relatively intensified labor.

TABLE 3

PROJECTED PRODUCTION OF IMPROVED SEEDS (000 MT) OF BASIC
GRAINS 1975-78

CROP	1974	1975	1976	1977	1978
Corn	250	363	476	589	704
Beans	90	171	252	333	414
Rice	150	252	354	456	557
Sorghum	10	18	26	33	41
Others <u>1/</u>	0	25	50	75	100
Totals	500	829	1,158	1,486	1,816

1/ Sesame, wheat, soybeans.

Projections in Table 3 are based on desirability of increasing seed production-processing capacity in annual increments from 500 MT level in 1974 to 1816 MT level in 1978, which will be sufficient for 20% annual seed renewal rate for all crops except beans (15% renewal rate). By 1978, therefore, seed supplies should be entirely adequate to sustain developmental momentum.

The quantities of seed projected in Table 3 will be sufficient to plant areas given in Table 4.

TABLE 4

PROJECTED AREA (000 HECTARES) TO BE PLANTED TO NEWLY PROCESSED SEED BY CROP 1975-78 1/

CROP	1974	1975	1976	1977	1978
Corn	15.62	22.68	29.75	36.81	44.00
Beans	1.80	3.42	5.04	6.66	8.28
Rice	1.87	3.15	4.42	5.70	6.96
Sorghum	0.83	1.50	2.16	2.75	3.42
Others <u>2/</u>	0	0.52	1.07	1.60	2.00
Totals	20.12	31.27	42.43	53.52	64.66

1/ Includes Asentamientos, Cooperatives and individual small farmers.

2/ Wheat, Sesame, Soybeans.

It should be pointed out that the requirements of the Asentamiento program for improved seed are only illustrative. It is possible that this target might not be met. The illustrative requirements when viewed against plant capacity do indicate that additional capacity is not required. Justification for AID funding to the extent proposed is based on bringing existing plant capacity to nearly 100 per cent. The Mission is confident that seed production will be sold in accordance with the production schedule set forth in Table 3 within the cooperative, asen-

tamiento and other small farmer credit programs of the GOH.

It is expected that the MINAG through DESAGRO will provide essential logistical support for project operations such as vehicles for use by seed production supervisors and inspectors, and for collection of contracted seed after harvest as may be necessary. Transport of processed, packaged seed to distribution points should be effected through both organic transport capability and arrangements with private trucking firms. Moreover, the MINAG is expected to increase the present operational budget to the "Producción de Semillas Mejoradas", exclusive of funds previously allocated for financing contract seed production, as shown below for years 1974-78. At such time as a seed marketing and certification law is enacted and implemented, an additional \$25,000/yr. will be required to finance enforcement activities.

PROJECT OPERATIONAL FUNDS FOR
 SEED PRODUCTION 1974-78 ^{1/}

<u>Year</u>	<u>GOH Contribution</u>
1974	\$100,000
1975	115,000
1976	132,000
1977	152,000
1978	171,000
	<hr/>
Total	\$670,000

The above annual operational allocations represents a significant increase over \$78,790 that was made available in 1973.

Outside financial needs (AID Loan) are estimated at \$400,000. These loan funds would include \$300,000 to be used to establish and maintain a special revolving fund for financing contract seed production and for purchase of designated expendable supply items used in processing and packaging of seed. Use of revolving funds for the latter purpose i.e., designated expendable supplies, should not be authorized until after sale receipts from the first season (after the loan becomes effective) are deposited into the account. Projected draw-down of loan funds for the

^{1/} Does not include costs for expendable supplies such as bags, cardboard boxes and chemicals since such items can be loan funded.

special revolving account is shown in Table 5. Projections assume a 2.5% increase in unit raw seed purchase price each year over 1974 base.

TABLE 5

PROJECTED DRAW-DOWN OF REVOLVING ACCOUNT FUNDS FOR FINANCING SEED PRODUCTION. CUMULATIVE BY SEED KIND OVER 1974-78 PERIOD IN 000 U.S. \$

CROP	1974	1975	1976	1977	1978
Corn <u>1/</u>	43.58	50.12	65.68	81.30	97.17
Beans	23.62	46.27	68.19	90.11	112.03
Rice	30.69	52.85	74.24	95.63	116.81
Sorghum	0.96	1.73	2.50	3.18	3.95
Others <u>2/</u>	0	5.93	12.17	18.26	24.34
Totals	98.85	156.90	222.78	228.48	354.30

1/ Corn seed assumed to be 80% composite and open pollinated; 20% hybrid.

2/ Wheat, soybeans, sesame.

With proper management, periodic re-assessment of seed price structure, realistic seed production schedules, and a vigorous campaign to increase utilization (sales) of improved seed, the special revolving account fund should slowly increase above original input during the project period. At about mid-point, i.e., end of 1976, a critical review of the special revolving fund should be made to determine if sufficient "surplus" has accumulated to permit coverage of a greater portion of operational costs, or alternatively to finance additional facilities such as seed drying units and storerooms, essential for expanding seed production beyond programmed levels.

The remaining \$100,000 of the AID Loan funds would be used to replace and repair worn equipment, and to finance

"finishing" and re-modeling of the seed plants so as to permit efficient operations at near 100% capacity (see Schedule 1), and to establish capability for implementation of seed law.

It is anticipated that the GOH will enact and implement a seed certification-marketing law during the early years of the project. Technical assistance will be provided from time to time through the AID/W funded grant contract with Mississippi State University.

3. Projected Benefits:

By the end of the project (1978) sufficient improved seed will have been produced to plant 212,000 hectares (mixed total of various crops, see Table 4) or 63% of the area taken into the expanded small farmer development program. With seed saving practices - known to every farmer and the usual diffusion of seed within communities from farmer-to-farmer, it is anticipated that at least approximately 300,000 ha., will be planted to superior recommended varieties by end of 1978. It is also reasonable to assume that the level of technification envisaged in the program including the use of improved seed will increase yields by at least 50% over national averages.

Although there are no good data on marginal value of improved seed in the production process as compared to fertilizer, crop protection, cultural practices, etc., evidence from studies by IICA-ZM economists indicate that marginal value of improved seed is at least as great as fertilization. Thus, assigning one-third of expected increase in production to improved seed is not unreasonable.

On the basis of the assumptions and judgements above, the added benefits deriving from the use of improved seed in 1978 alone, the last year of the project, in terms of production should be on order of: 33,000 MT maize; 6,000 MT beans; 6,200 MT rice; and 2,100 MT sorghum. ^{1/} At 1974 BNF prices for maize, beans, and rice and local market price for sorghum, monetary gains would be about \$5,700,000. The

^{1/} Based on increasing yield of maize, beans, rice and sorghum by 0.55, 0.40, 0.70 and 0.42 MT, respectively, on 90% of area within project with one-third increase assigned as a benefit of improved seed.

lesser benefits in 1975, 1976, and 1977 when added to 1978 benefits for 4 year total would more than double the monetary gains.

In terms of benefits at the farm gate, it should be re-emphasized that non-hybrid grain crop seed are unique among production inputs in that they are multiplied rather than consumed in the production process. Thus, by saving a portion of the harvest produced from improved seed for planting next season - a traditional practice for 10,000 years - the same benefits are achieved the following season provided, of course, the utilization level of other inputs remains constant. In practice a farmer can generally "save" seed of improved, non-hybrid grain crop varieties for about 4-5 seasons with only minor loss in genetic potential. After this period he should "re-new" his seed by purchase from a reputable source, or "change" it to an even more improved variety released in the interim.

At illustrative seed prices considered in previous section (\$0.28/kg for sorghum seed) and normal seeding rates, the cost of improved seed to plant one (1) hectare would be: \$4.48 for maize; \$17.50 for beans; \$28.00 for rice; and \$2.64 for sorghum. On the basis of previous assumptions as to the marginal benefits of improved seed the farmer could expect net benefits (per ha.) of \$12.84 (287%) for maize; \$11.10 (63%) for beans; \$6.10 (22%) for rice and \$8.14 (308%) for sorghum. If he saved seed for planting the following season - as he should - benefits would substantially increase because out-of-pocket costs for "seed" would be equivalent to grain prices. Therefore, second year benefits would be (per ha.): \$15.72 (983%) for maize; \$17.60 (160%) for beans; \$20.50 (151%) for rice and \$9.82 (1023%) for sorghum. Benefits for subsequent seasons during the 4 year period would be about the same as the 2nd season, with some down turn during last season.

4. Evaluation Procedures

Progress of the project can best be monitored and evaluated in terms of quantities of improved seed produced, distributed and sold by kind and variety. Quantitative reports covering production-sales should be prepared for semi-annual meetings of the "seed committee" organized to establish production schedules and review the program.

An annual or semi-annual audit of the special revolving fund account should provide a rather complete record of seed production and sales and also base data for assessing efficiency of operations. Special attention should be focussed on the revolving fund balance taking into consideration accounts payable and receivable, inventory of expendable supplies (as authorized), as well as cash balance. The revolving account fund balance should slowly increase above level of input, or at least remain equal to it. Any significant drain-off from the revolving fund at the end of each sales season not covered by accounts receivable or designated expendable supplies in inventory, should be occasion for formal audit and review to determine cause. Drain-off from the fund might reflect gross inefficiencies, non-payment of seed sales accounts, a seed price structure too low, use of revolving account for non-authorized purposes, etc., or combination of these. Technical assistance consultants should be requested to review the entire range of managerial and technical procedures during each visit to identify the weaknesses and constraints, and to recommend corrective actions.

5. Technical Assistance

It is perceived that technical assistance to the project will be needed in the initial "repair and renovation" phase to provide guidance as plant facilities are brought up to full operational capacity, and periodically, thereafter, to help in improving effectiveness and efficiency of technical management, plant and field operations, and to assist in resolving any technical problems that may arise. In view of the long association of Mississippi State University with the "seed program" in Honduras and the continuing existence of contractual arrangements between MSU and AID/TAB (Seed Program/Industry Development) to provide technical assistance to country seed programs or request from Missions, provision for technical assistance as needed through this mechanism and under grant funds is planned.

SCHEDULE 1.

Estimated costs of equipment and materials needed to bring San Pedro Sula and Tegucigalpa seed plant facilities to full operational capacity and for implementation of seed law.

OPERATION/AREA	Est. Cost U.S.\$
1. Threshing	<u>13,000</u>
- Two plot threshers for sorghum, soybeans, wheat	(13,000)
2. Drying	<u>3,800</u>
- Repair of Tegucigalpa dryer platform	(1,500)
- Repair and completion of San Pedro Sula rice dryer	(2,000)
- Spare dryer fan motor	(300)
3. Cleaning	<u>4,800</u>
- Spare parts and assorted screens	(1,000)
- Industrial vacuum cleaners for clean-up	(900)
- High velocity blowers for clean-up	(400)
- Tractor or jeep drawn wagons for collection and disposal of wastes, principally cobs	(2,500)
4. Treating	<u>2,900</u>
- Repair and replacement parts of treater	(600)
- New seed treater	(2,300)
5. Packaging	<u>3,000</u>
- Bagger weigher with portable closers	(2,400)
- New bag closer for semi-automatic bagging machine	(600)
6. Conveying and Handling	<u>4,100</u>
- Replacement parts for bag conveyors	(600)
- New bag conveyor	(1,000)
- Platform "bag" trucks, and two-wheel bag trucks	(1,500)
- Replacement motors, belts, and buckets for drag conveyors and elevators	(1,000)
7. Storage	<u>26,300</u>
- 10 air conditioners, window-type 36,000 BTU, for replacement of inoperative units and additional space to be conditioned	(8,000)
- 7 industrial refrigerator-type dehumidifiers for replacement of	

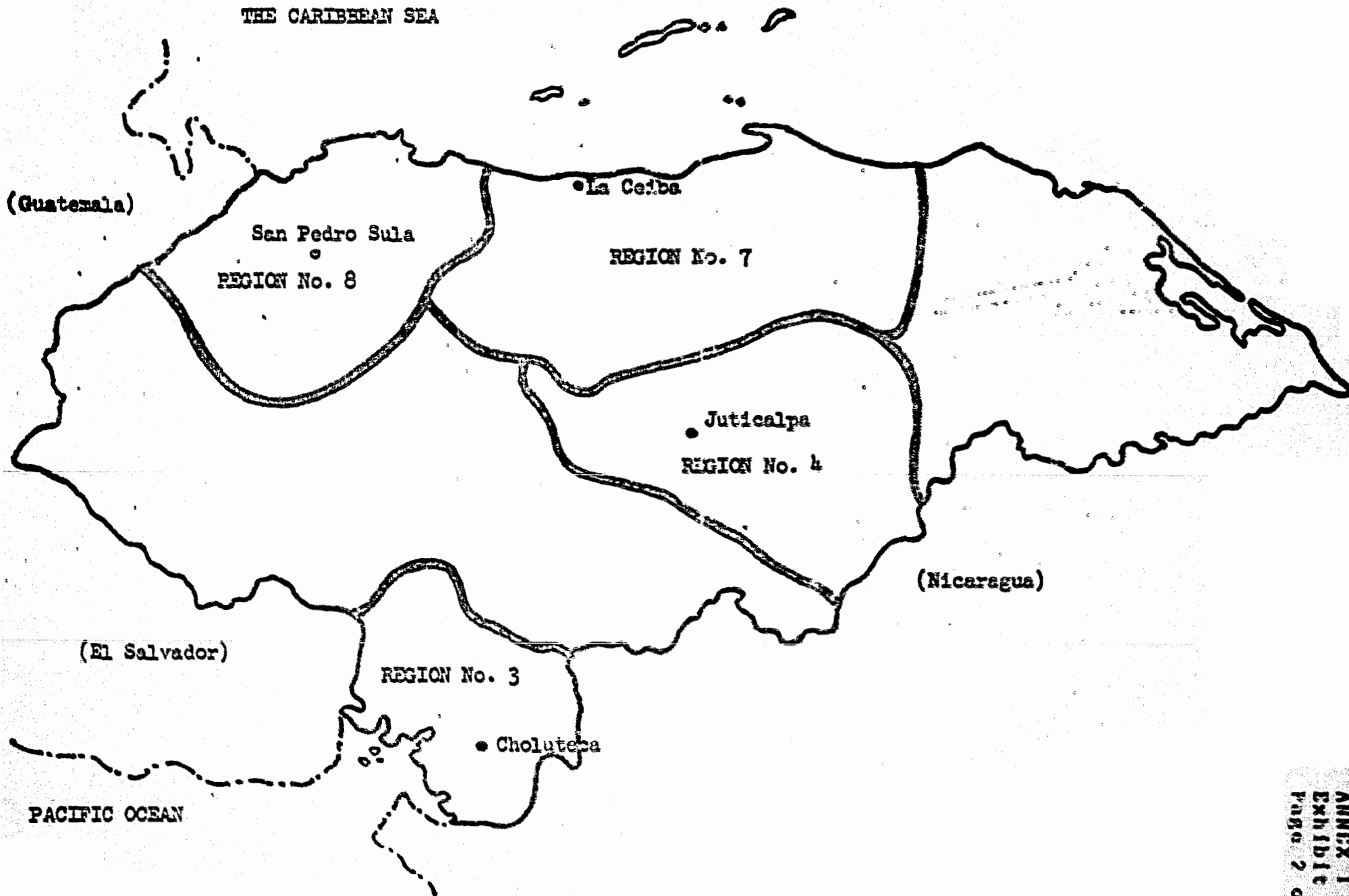
OPERATION/AREA	Est. Cost U.S.\$
inoperable units and additional space to be conditioned.	(6,300)
- Finishing and completion of unfinished 3120 sq.ft. section of seed storehouse to include plastering of walls, installation of insulated ceiling, heavy duty doors, and sealing with good quality sealant paint.	(9,000)
- Completion of seed storage "Cold room" for breeder and genetic seeds, including new insulation and installation of desiccant dehumidifier on-hand, after repair	(3,000)
8. Seed Testing-Seed Law Implementation	<u>11,900</u>
- Repair of two germinators	(1,600)
- New germinator	(4,000)
- Purity analysis instruments and equipment	(2,500)
- Sampling tools and equipment	(800)
- Seed drying oven	(400)
- Microscope (stereoscopic - low power) and lighted magnifiers	(800)
- Moisture tester (electronic)	(800)
- Miscellaneous glassware and supplies	(1,000)
9. Miscellaneous	<u>4,600</u>
- Three platform scales	(1,000)
- Assorted spare parts and motors for equipment	(1,000)
- Truck scale for Tegucigalpa plant	(2,600)
10. General	<u>4,500</u>
- Repainting of exterior of storehouses, drying units and processing plants, remodeling of seed testing laboratory	(4,500)
TOTAL	78,800
Plus shipping, crating, installations	<u>21,200</u>
GRAND TOTAL	<u><u>100,000</u></u>

REPUBLICA DE HONDURAS
 DEPARTAMENTO DE ESTUDIOS Y PROYECTOS
 DISEÑO GEOMETRICO DE CARRETERAS ESPECIFICACIONES CENTROAMERICANAS

CONCEPTO	ESPECIALES	PRINCIPALES	SECUNDARIA	VECINALES	CARRETERAS PARA ASENTAMIENTOS
TIPO DE CAMINO					
Numero de vehiculos	Mas de 5000 por dia	Mas de 1000 por dia	Mas de 500 por dia	Mas de 100 por dia	Menos de 100 por dia
Tipo de tracci6n	Mixta	Mixta	Mixta	Mixta	Mixta
Velocidad de diseo	Segun configuracion	Segun configuracion	Segun configuracion	Segun configuracion	Segun configuracion
CLASIFICACION DEL TERRENO					
Terrano plano	0% a 10% (10° a 6°)	Igual al exterior	Igual al exterior	Igual al exterior	Igual al exterior
" ondulado	10% a 25% (10° a 15°)	" " "	" " "	" " "	" " "
" montaoso	25% a 40% (15° a 22°)	" " "	" " "	" " "	" " "
" escarpado	40% a mas (mas de 22°)	" " "	" " "	" " "	" " "
VELOCIDAD DE DISEO					
Terrano plano	100 kms por hora	80 kms por hora	60 kms por hora	50 kms por hora	50 kms por hora
" ondulado	80 " " "	60 " " "	50 " " "	40 " " "	40 " " "
" montaoso	60 " " "	50 " " "	40 " " "	30 " " "	30 " " "
" escarpado	40 " " "	40 " " "	40 " " "	30 " " "	30 " " "
ALINEAMIENTO HORIZONTAL					
Longitud minima	100 metros	100 metros	100 metros	100 metros	100 metros
Terrano plano	R 250 m a 10° 19'	R 250 m a 10° 19'	R 200 m a 7° 52'	R 100 m a 6° 44'	R 100 m a 5° 46'
" ondulado	R 310 m a 12° 34'	R 250 m a 10° 19'	R 160 m a 5° 44'	R 80 m a 4° 26'	R 50 m a 3° 10'
" montaoso	R 380 m a 20° 52'	R 100 m a 5° 44'	R 50 m a 4° 26'	R 30 m a 3° 10'	R 30 m a 1° 50'
" escarpado	R 450 m a 28° 10'	R 60 m a 3° 10'	R 30 m a 1° 50'	R 20 m a 1° 50'	R 20 m a 1° 50'
VISIBILIDAD					
Terrano plano	100 K/h 200 m 100 m	80 K/h 150 m 100 m	60 K/h 100 m 100 m	50 K/h 75 m 100 m	50 K/h 75 m 100 m
" ondulado	80 K/h 150 m 100 m	60 K/h 100 m 100 m	50 K/h 75 m 100 m	40 K/h 50 m 100 m	40 K/h 50 m 100 m
" montaoso	60 K/h 100 m 100 m	40 K/h 70 m 100 m	40 K/h 50 m 100 m	30 K/h 35 m 70 m	30 K/h 35 m 70 m
" escarpado	40 K/h 70 m 100 m	40 K/h 50 m 100 m	40 K/h 50 m 100 m	30 K/h 35 m 70 m	30 K/h 35 m 70 m
SENYENTES EN CURVAS					
Terrano plano	Misma senalida D1 sencilla	Misma senalida D1 sencilla	Misma senalida D1 sencilla	Misma senalida D1 sencilla	Misma senalida D1 sencilla
" ondulado	200 m 150 m	175 m 140 m	140 m 110 m	110 m 85 m	100 m 85 m
" montaoso	160 m 140 m	140 m 120 m	120 m 95 m	95 m 75 m	95 m 75 m
" escarpado	140 m 120 m	125 m 105 m	110 m 85 m	95 m 65 m	85 m 65 m
ALINEAMIENTO VERTICAL					
Terrano plano	Mas de 300 m	Menos de 300 m	Mas de 300 m	Menos de 300 m	Menos de 300 m
" ondulado	3%	3%	5%	5%	5%
" montaoso	4%	4%	6%	6%	6%
" escarpado	5%	5%	6%	9%	10%
SECCION TRANSVERSAL					
Ancho de via	2 x 7.20 m	7.20 m	6.50 m	5.50 m	4.20 m
Ancho de banquetas	2.50 m a cada lado	2.40 m a cada lado	1.75 m a cada lado	0.75 m a cada lado	0.70 m a cada lado
Carretera de via	60 m total	60 m total	30 m total	30 m total	30 m total
Carretera de estructuras					

D₁ distancia de visibilidad sencilla de parada
 D₂ distancia de visibilidad doble

THE CARIBBEAN SEA



(Guatemala)

San Pedro Sula

REGION No. 8

• La Ceiba

REGION No. 7

• Juticalpa

REGION No. 4

(Nicaragua)

(El Salvador)

REGION No. 3

• Choluteca

PACIFIC OCEAN

RIGHT OF WAY

EXCERPT FROM HIGHWAYS LAW

Decree Nº 173

Article 11.- In accord with the fore-going, every landowner is obligated to give access to his property to Ministry of Communications employees charged with carrying out preliminary construction studies of any road, and he should give assistance so that these studies may be carried out without difficulty.

Article 12.- Owners of property next to or near any road are obliged to allow the taking of materials necessary for road opening, construction, maintenance, and improvement at no cost to the State, with previous notification to the owner.

Article 13.- The State will carry out for its account after the work is completed the repair of any damages caused by the taking out of materials mentioned in the previous Article.

Article 14.- The right-of-way will be at least 15 meters on each side from the center line of the road.

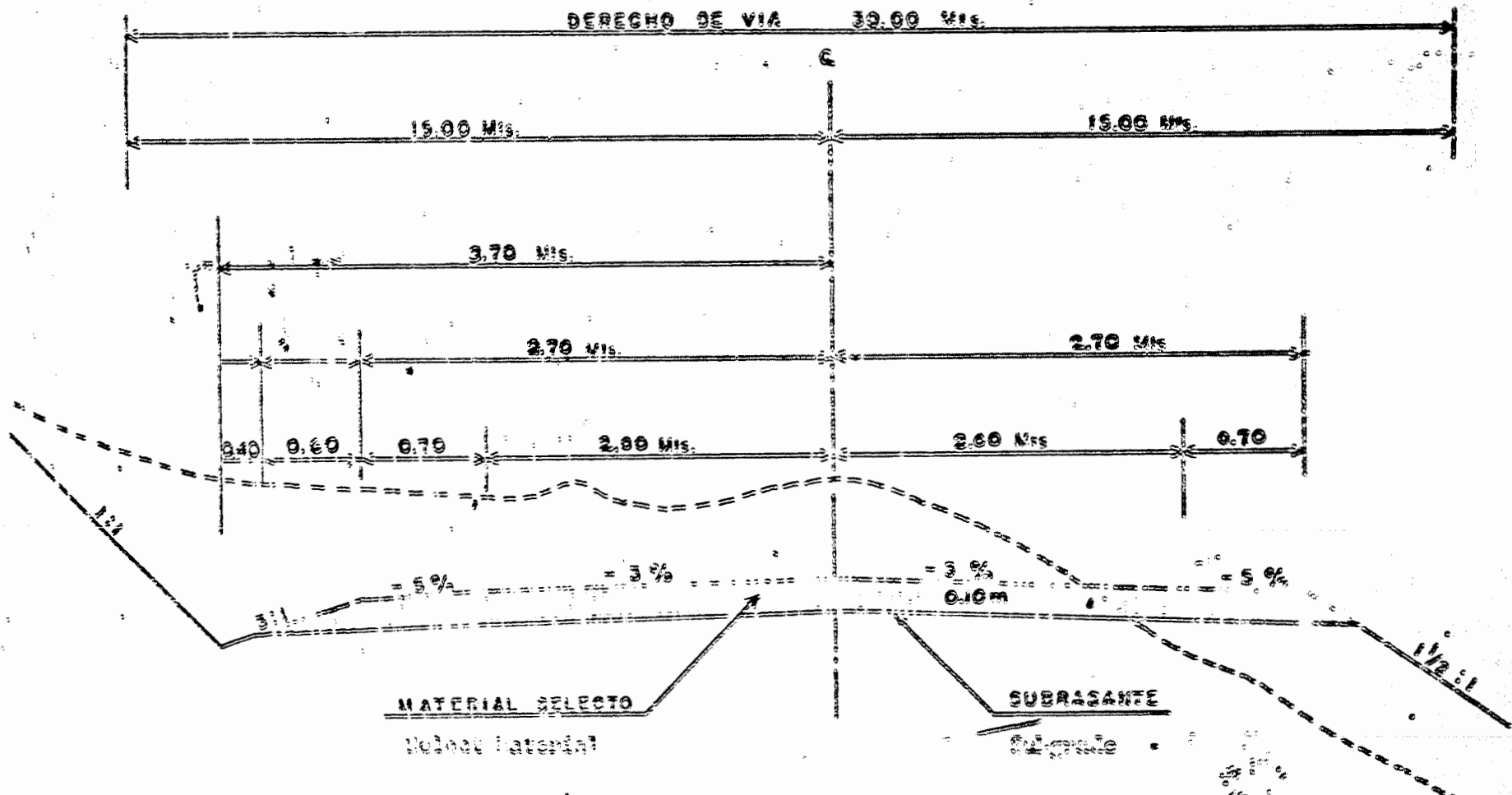
Article 15.- The portion of privately owned land required for the construction, expansion, or improvement of the country's highway system will become property of the State through surrender, gift, purchase, compensation, or expropriation for public necessity and utility. When the land is municipal or State owned, the user will have right to no more than the value of the improvements on the part affected. In all cases, the price or indemnity which should be paid to owners shall be reduced in accord with the improved property value which may result from the road.

Article 16.- In addition to the right-of-way, a belt of no less than 5 meters should be reserved on each side of the road, on which no construction of any kind may be authorized. Construction carried out in violation of this Article will be demolished with no liability to the State, and the law-breaker will be responsible for the costs of demolition and any other legal liabilities.

Article 17.- Within the right-of-way it is forbidden to erect any commercial signs, with the exception of highway signs.

Article 18.- It also is forbidden to place within the right-of way wood, construction materials, or any other object which might obstruct visibility.

Right-of-Way

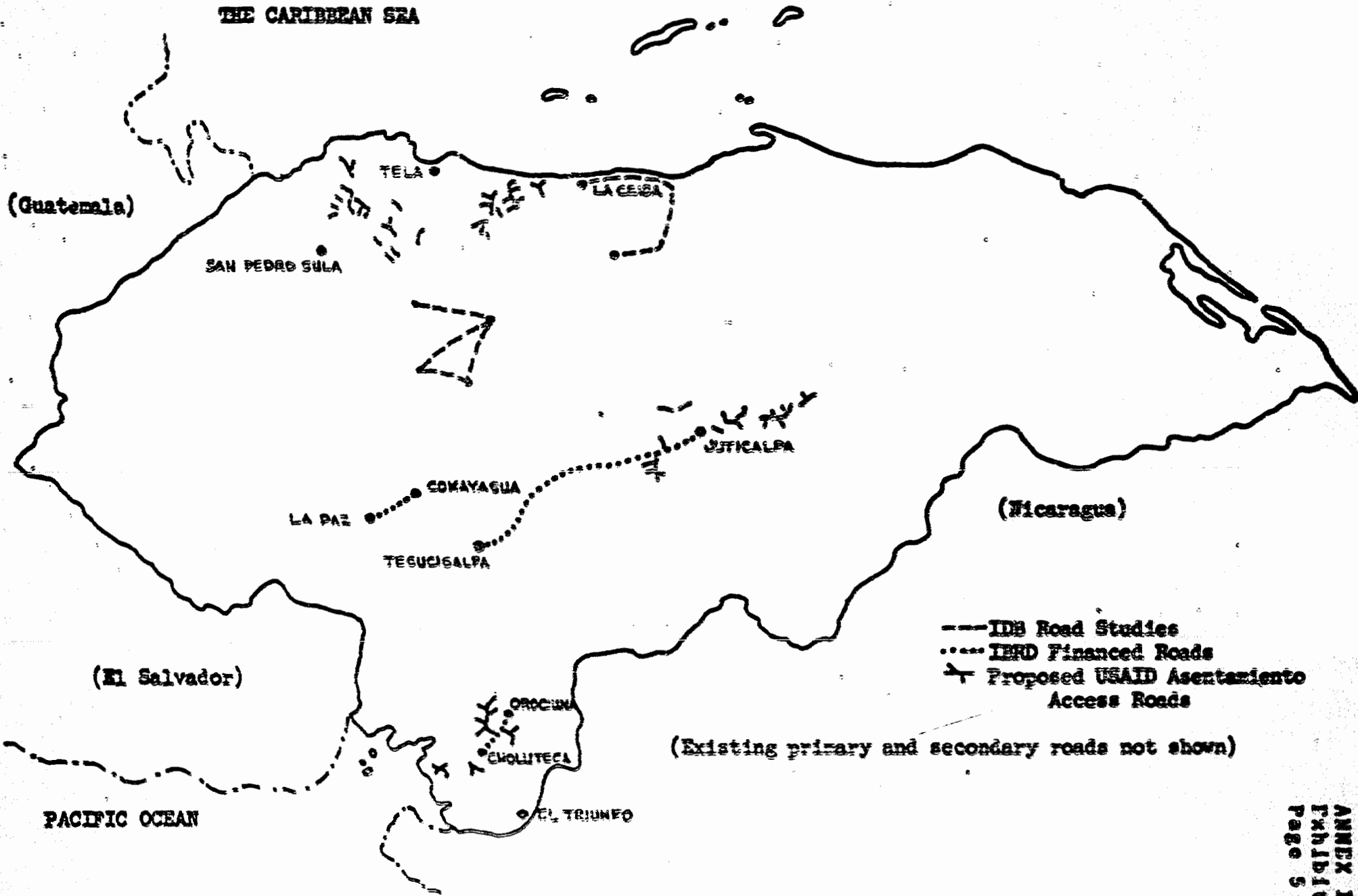


MATERIAL SELECTO
Bueno Material

SUBSTRANTE
Gravilla

Typical Section

SECCION TIPICA



- IDB Road Studies
- IBRD Financed Roads
- * Proposed USAID Asentamiento Access Roads

(Existing primary and secondary roads not shown)

TABLE 1

**PLANNED EXPENDITURES OF PUBLIC INSTITUTIONS IN THE AGRICULTURAL SECTOR,
1974-1978**

(Millions of Lempiras)

	Current Expenditures	Financial Investment	Real Investment	Total Expenditures
1974-1978				
Total	145.5	141.4	85.0	371.9
External	29.5	41.3	59.9	128.7
Internal	116.0	100.1	27.1	243.2
1974				
Total	22.0	43.6	15.1	80.7
External	7.6	14.0	12.2	33.8
Internal	14.4	29.6	2.9	46.9
1975				
Total	26.0	29.1	16.7	71.8
External	6.2	8.8	9.6	24.6
Internal	19.8	20.3	7.1	47.2
1976				
Total	29.5	26.1	16.3	71.9
External	5.0	6.2	11.1	22.3
Internal	24.5	19.9	5.2	49.6
1977				
Total	32.2	21.2	17.9	71.3
External	5.3	6.0	12.5	23.8
Internal	26.9	15.2	5.4	47.5
1978				
Total	35.8	21.4	18.9	76.1
External	5.4	6.3	12.4	24.1
Internal	30.4	15.1	6.5	52.0
Rate of Growth, 1974-1978				
Total	12.9	(16.0)	5.7	(1.5)
External	(8.0)	(18.0)	0.4	(8.0)
Internal	20.5	(15.5)	22.0	2.1

SOURCE: Tables 1, 2 and 3 of Annex II

TABLE 2

PLANNED CURRENT EXPENDITURES BY AGRICULTURAL SECTOR INSTITUTIONS,
1974-1978
(Million of Lempiras)

Public Institutions	1974-1978		1974	1975	1976	1977	1978
	Total	Internal					
Agrarian Institute	26.4	25.4	4.9	5.5	5.7	5.2	5.1
Planning Council	9.7	3.2	1.6	2.1	2.0	2.0	2.0
Development Bank	2.5	2.3	0.8	0.8	0.3	0.3	0.3
Central Bank	2.1	2.1	0.5	0.4	0.4	0.4	0.4
Min. of Natural Resources	103.1	81.5	13.7	16.9	20.8	24.0	27.7
Coffee Institute	1.7	1.5	0.5	0.3	0.3	0.3	0.3
Total Agriculture Sector	145.5	116.0	22.0	26.0	29.5	32.2	35.8
Internally Financed	-	116.0	14.4	19.8	24.5	26.9	30.4

SOURCE: CON Planning Council, preliminary figures

TABLE 3

PLANNED FINANCIAL INVESTMENT BY AGRICULTURAL SECTOR INSTITUTION, 1974-1978
 (Millions of Leones)

Institution	1974-1978		1974	1975	1976	1977	1978
	Total	Internal					
Development Bank	94.0	73.4	32.0	21.3	17.1	11.8	11.8
Central Bank	30.6	15.3	7.3	5.8	5.0	5.8	5.9
Ministry of Natural Resources	16.8	11.4	4.3	2.0	3.2	3.6	3.7
Total, Agricultural Sector	141.4	100.1	43.6	29.1	26.1	21.2	21.4
Internally Financed	-	100.1	29.6	20.3	19.9	15.2	15.1

SOURCE: GOM Planning Council, preliminary figures

TABLE 4

PLANNED REAL INVESTMENT BY AGRICULTURAL SECTOR INSTITUTION, 1974-1978
(Million of Lempiras)

Institution	1974-1978		1974	1975	1976	1977	1978
	Total	Internal					
Ministry of Natural Resources	53.1	19.8	5.6	6.5	12.6	13.5	14.9
Forestry Corporation <u>1/</u>	15.1	0.3	2.0	2.9	2.9	3.4	3.9
Agrarian Institute	11.9	4.2	5.1	5.8	-	-	-
Development Bank	4.9	2.8	1.4	1.5	0.8	1.1	0.1
Total Agricultural Sector	85.0	27.1	15.1	16.7	16.3	17.9	18.9
Internally Financed	-	27.1	2.9	7.1	5.2	5.4	6.5

NOTE: 1/ Excludes pulp and paper mill investment L. 129.5 million during the period.

SOURCE: GOH Planning Council, preliminary figures

TABLE 5

STRUCTURE OF PUBLIC SECTOR REAL INVESTMENT, 1960-1972 AND PLANNED REAL INVESTMENT,
1974-1978, BY SECTORS

(In per cent)

Sectors	Real Investment				Planned Real Invest. ^{2/}
	1960-62	1965-67	1970-72	1960-72	1974-1978
<u>Economic</u>	70	58	81	74	70
Transport & Communications	44	43	50	48	36
Electrical Energy	25	9	21	19	22
Agriculture & Forestry	1	6	10	7	12 ^{1/}
<u>Social</u>	30	42	19	26	30
Education	3	6	3	4	8
Health	14	17	4	8	10
Urban Div., Housing & Local Government	13	19	12	14	12
Total	100	100	100	100	100
Average Annual Investment: (Millions of Lempiras)	28.4	30.1	98.6 ^{3/}	43.5 ^{3/}	142.0 ^{1/}

NOTE: ^{1/} Excludes investments of L.150.1 million in pulp and paper mill and other forestry - industrial projects

^{2/} Preliminary figure

^{3/} Estimates

SOURCE: GOH Planning Council

TABLE 6**PLANNED PUBLIC SECTOR REAL INVESTMENT, 1974-1978 (MILLIONS OF LEMPIRAS)**

SECTORS	1970 - 1974		1974	1975	1976	1977	1978
	TOTAL	INTERNAL					
Transport and Communications	256.8	103.0	42.5	49.2	48.2	59.5	57.4
Electrical Energy	157.4	65.2	29.2	20.3	28.1	37.4	42.4
Agriculture and Forestry	85.0	27.1	15.0	16.7	16.3	16.0	18.9
Education	53.8	31.5	17.1	10.5	12.7	8.0	6.0
Health	67.9	32.1	22.1	16.0	10.2	10.9	8.7
Urban Development & Housing	70.5	48.2	16.5	13.7	13.2	14.2	12.9
Local Governments	18.8	5.0	3.1	6.4	5.9	3.4	-
Forest Industry ^{1/}	158.1	31.5	4.2	6.0	6.7	43.9	97.3
Total, Real Investment	868.3	338.0	149.7	138.9	146.8	195.3	243.6
Internally Financed	-	338.0	56.7	60.6	56.8	73.5	90.4

NOTES: ^{1/} Pulp and paper mill and other industrial projects

Source: GOH Planning Council, preliminary figures

TABLE 7**PLANNED PUBLIC SECTOR EXPENDITURES, 1974-1978 (MILLIONS OF LEPIRAS) 1/**

	1974-1978	1974	1975	1976	1977	1978	Rate of Growth 1974 - 1978
Real Investment							
Total	868.3	143.7	138.9	140.8	195.3	243.6	13.0
Internally Financed	338.0	56.7	60.6	56.8	73.5	90.4	12.4
Financial Investment							
Total	141.4	43.6	29.1	26.1	21.2	21.4	(16.0)
Internally Financed	100.1	28.6	20.3	19.9	15.2	15.1	(16.0)
Current Expenditures							
Total	1535.7	246.3	274.2	307.4	337.7	370.1	10.8
Internally Financed	1506.1	230.7	267.9	302.4	332.5	364.6	11.2
Public Sector Expenditures 1/							
Total	2545.4	409.6	442.2	474.3	554.2	635.1	9.7
Internally Financed	1944.2	325.0	348.8	379.1	421.2	470.1	9.7

NOTE: 1/ Excludes certain elements of public expenditures such as debt amortization and some transfers, and reserves for inflation. During the plan period these items are expected to total L. 352.6 million (See Table 8, Annex II).

Source: GOH Planning Council, preliminary figures

TABLE 8
FINANCIAL REQUIREMENTS OF LOAN PROGRAM, 1974-1978
(000'0 OF LEMPIRAS)

<u>Program Element and Type of Expenditure</u>	<u>Total Cost</u>	<u>A.I.D.</u>	<u>Regular Public Sector</u>
A. Cooperative Window			
Financial Investment	7,000	4,000	3,000
Current Expenditure	1,430	510	920
Total	8,430	4,510	3,920
B. Asentamiento Rural			
Financial Investment	13,000	8,000	5,000
Current Expenditure	970		970
Total	13,970	8,000	5,970
C. Coordination, Planning & Evaluation			
Current Expenditure	2,642	1,642	1,000
Total	2,642	1,642	1,000
D. Extension Support			
Real Investment	384	384	-
Current Expenditure	2,254	80	2,174
Total	2,638	464	2,174
E. Vehicle Operation and Maintenance			
Real Investment	2,184	1,904	280
Current Expenditures	1,500	100	1,400
Total	3,684	1,904	1,780
F. Improved Seed			
Real Investment	200	200	-
Financial Investment	710	600	110
Current Expenditure	498	-	498
Total	1,408	800	608
G. Agricultural Education			
Current Expenditure	3,526	2,928	598
Total	3,526	2,928	598
H. Access Roads			
Real Investment	5,036	3,732	1,304
Total	5,036	3,732	1,304
Total Program			
Real Investment	7,324	6,120	1,204
Financial Investment	20,710	12,600	8,110
Current Expenditure	12,890	5,280	7,610
Total New Expenditures	41,414	24,000	17,414

Source: Mission Estimates

TABLE 2

ASSETS HELD BY THE STATE BANK OF NEW YORK FROM 1974-1978
(Data as of 12/31/78)

ACCOUNT NUMBER	ASSET DESCRIPTION	1974	1975	1976	TYPE OF INVESTMENT	NUMBER OF SECURITIES HELD
A. Government Bonds						
TOTAL						
B. Government Securities						
	U.S. Treasury Bonds	2,000	2,000	-	In execution	RR, RR
	U.S. Treasury Notes	3,000	3,000	600	not financial	RR, RR
	U.S. Treasury Bills	900	900	-	In execution	RR
	Government Securities	5,900	5,900	600	not financial	RR
TOTAL						
C. Government Bonds, Notes and Bills						
TOTAL						
D. Government Securities						
E. Other Government Securities						
	U.S. Treasury Bonds	5,000	5,000	500	not financial	RR, RR
	U.S. Treasury Notes	3,000	3,000	-	not financial	RR, RR
	U.S. Treasury Bills	2,000	2,000	200	not financial	RR
	Other Government Securities	7,000	7,000	700	not financial	RR, RR
TOTAL						
F. Government Securities						
	U.S. Treasury Bonds	3,000	3,000	-	In execution	RR, RR
	U.S. Treasury Notes	3,000	3,000	-	not financial	RR, RR
TOTAL						
G. Government Securities						
TOTAL						
H. Other Securities						
	U.S. Treasury Bonds	5,000	5,000	500	In execution	RR, RR
	U.S. Treasury Notes	3,000	3,000	-	not financial	RR, RR
	U.S. Treasury Bills	2,000	2,000	200	not financial	RR
	Other Securities	7,000	7,000	700	not financial	RR, RR
TOTAL						
ADD SUBTOTALS						
	RR	30,000	30,000	30,000		
	RR, RR	3,000	3,000	3,000		
	RR, RR	3,000	3,000	3,000		
	TOTAL	36,000	36,000	36,000		

Source: FDIC Reporting Committee, preliminary figures

Overall national production costs, by crop area, hectares cultivated at traditional and intermediate levels, yields and production for the period of the plan are shown in table 1-1.

TABLE 1-1

Costs, Yields and Agricultural Production by Traditional and Intermediate Areas

(Years 1970-72 & 1974)

Products	Surface Hcs.		Annual Intensity Percentage	Yields Kg./Ha.		Production		Annual Yields Percentage	
	1970-72	1974		1970-72	1974	1970-72	1974		
Cereals									
Cereals									
Corn	Total	289.4	288.9	0.8	1,215	1,244	377.2	471.7	5.4
	I.	28.7	48.7	8.6	1,900	3,400	44.8	149.2	10.0
	No. I.	289.3	271.9	0.2	1,187.2	1,171.6	281.4	322.5	2.1
Rice	Total	11.3	12.0	0.6	0.00	2,400	11.4	30.0	12.2
	I.	3.9	6.6	7.5	1,015	3,224	4.3	25.9	23.0
	No. I.	7.6	5.4	0.2	0.71	739	5.1	4.1	0.1
Sorghum	Total	30.0	26.9	2.1	1,371	2,005	42.5	55.7	4.9
	I.	1.4	5.2	20.9	1,705	2,000	2.5	15.1	20.0
	No. I.	29.6	21.6	0.4	1,351	1,997	40.0	40.6	0.3
Wheat	Total	0.8	0.3	-	0.00	0.00	0.7	0.7	-
	I.	-	-	-	-	-	-	-	-
	No. I.	0.8	0.3	-	0.00	0.00	0.7	0.7	-
Legumes									
Beans									
Beans	Total	73.6	75.1	0.5	590	739	43.5	54.2	3.2
	I.	5.2	13.2	14.2	692	190	5.0	17.2	10.2
	No. I.	67.4	62.9	0.2	521	629	38.5	37.0	0.2
Starches									
Wheat									
Wheat	Total	5.0	7.1	5.1	7,700	8,350	38.0	117.4	17.1
	I.	-	1.9	-	-	35,000	-	65.0	-
	No. I.	5.0	5.2	0.6	7,700	19,110	19.0	52.4	4.4
Sweet Potato	Total	410	436	2.4	2,430	2,630	1.0	1.3	3.8
	I.	-	-	-	-	-	-	-	-
	No. I.	410	436	2.4	2,430	2,630	1.0	1.3	3.8
Planting Material	Total	7.7	2.9	2.1	17,105	23,420	132.4	210.3	5.3
	I.	-	2.4	-	-	25,000	-	61.4	-
	No. I.	7.7	4.5	0.6	17,105	22,746	132.4	148.9	1.7
Vegetables									
Potatoes									
Potatoes	Total	1.5	5.1	19.8	4,173	10,079	0.2	51.4	35.0
	I.	0.253	3.0	47.0	10,350	14,000	2.1	44.7	54.0
	No. I.	1.3	2.1	7.1	3,190	2,199	0.1	6.7	7.3
Onion	Total	0.233	0.297	2.9	5,456	10,274	1.3	2.1	7.1
	I.	0.190	0.126	3.0	6,420	12,000	0.622	1.6	10.9
	No. I.	0.143	0.171	0.0	4,220	4,772	0.641	0.5	-3.5
Garlic	Total	0.070	0.132	7.2	3,025	3,023	0.230	0.000	7.0
	I.	-	-	-	-	-	-	-	-
	No. I.	0.070	0.132	7.2	3,025	3,023	0.230	0.000	0.2
Cabbage	Total	0.077	0.243	1.4	7,001	10,427	5.2	2.9	0.9
	I.	0.117	0.211	0.8	15,333	21,434	5.8	6.6	14.0
	No. I.	0.059	0.032	0.6	6,711	4,192	3.4	2.3	0.5

TABLE B-1 (Cont'd)

Product	Quantity	1977		1978		1979		1980		1981
		Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	
Aluminum	Quantity	2,855	4.5	2,870	4.5	2,855	4.5	2,855	4.5	2,855
	Value	2,855	2,855	2,855	2,855	2,855	2,855	2,855	2,855	2,855
	Unit Price	1.00	0.634	1.00	0.634	1.00	0.634	1.00	0.634	1.00
W. Steel	Quantity	50.0	71.5	50.0	71.5	50.0	71.5	50.0	71.5	50.0
	Value	22.0	32.45	22.0	32.45	22.0	32.45	22.0	32.45	22.0
	Unit Price	0.44	0.455	0.44	0.455	0.44	0.455	0.44	0.455	0.44
Iron	Quantity	0.400	0.750	0.400	0.750	0.400	0.750	0.400	0.750	0.400
	Value	0.400	0.750	0.400	0.750	0.400	0.750	0.400	0.750	0.400
	Unit Price	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Copper	Quantity	0.200	3.7	0.200	3.7	0.200	3.7	0.200	3.7	0.200
	Value	0.200	3.7	0.200	3.7	0.200	3.7	0.200	3.7	0.200
	Unit Price	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Zinc	Quantity	7.0	9.4	7.0	9.4	7.0	9.4	7.0	9.4	7.0
	Value	7.0	9.4	7.0	9.4	7.0	9.4	7.0	9.4	7.0
	Unit Price	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Lead	Quantity	7.0	9.4	7.0	9.4	7.0	9.4	7.0	9.4	7.0
	Value	7.0	9.4	7.0	9.4	7.0	9.4	7.0	9.4	7.0
	Unit Price	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Nickel	Quantity	4.0	6.0	4.0	6.0	4.0	6.0	4.0	6.0	4.0
	Value	0.200	2.0	0.200	2.0	0.200	2.0	0.200	2.0	0.200
	Unit Price	0.05	0.333	0.05	0.333	0.05	0.333	0.05	0.333	0.05
Selenium	Quantity	2.0	4.0	2.0	4.0	2.0	4.0	2.0	4.0	2.0
	Value	0.200	2.0	0.200	2.0	0.200	2.0	0.200	2.0	0.200
	Unit Price	0.10	0.50	0.10	0.50	0.10	0.50	0.10	0.50	0.10
Manganese	Quantity	0.200	0.200	0.200	0.200	0.200	0.200	0.200	0.200	0.200
	Value	0.200	0.200	0.200	0.200	0.200	0.200	0.200	0.200	0.200
	Unit Price	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Vanadium	Quantity	3.0	4.0	3.0	4.0	3.0	4.0	3.0	4.0	3.0
	Value	3.0	4.0	3.0	4.0	3.0	4.0	3.0	4.0	3.0
	Unit Price	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Cadmium	Quantity	2.0	4.0	2.0	4.0	2.0	4.0	2.0	4.0	2.0
	Value	2.0	4.0	2.0	4.0	2.0	4.0	2.0	4.0	2.0
	Unit Price	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Sulfur	Quantity	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
	Value	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
	Unit Price	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Zinc Oxide	Quantity	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
	Value	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
	Unit Price	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Zinc Sulfide	Quantity	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
	Value	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
	Unit Price	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Iron Oxide	Quantity	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
	Value	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
	Unit Price	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Zinc Carbonate	Quantity	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
	Value	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
	Unit Price	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

NOTE: Approximate quantities based on preliminary estimates of the Department of Commerce for domestic production.

NOTE: The above quantities are based on the best available information.

TABLE II-2

**GOALS, YIELDS AND LIVESTOCK PRODUCTION IN A TECHNIIFIED AND
TRADITIONAL FARM (YEARS 1970-72 AND 1978)**

Livestock - Subsector

		Slaughtered Heads		Increasing Rate	Yields Kg/Heads		Production	
		1970-72	1978		1970-72	1978	1970-72	1978
Beef	Total	252.980	408.489	7.1	144	160	36.4	65.3
	T.							
	No T.							
Swine Production	Total	324.547	347.890	1.0	32	42.8	10.4	5.2
	T.							
	No T.							
Poultry	Total	5,572.822	7,747.179	0.5	1.1	1.1	6.2	4.3
	T.	2,415.463	4,625.045	9.7				
	No T.	3,157.359	3,122.113	-0.2				
EGGS	Total	3,511.843	4,611.062	4.0	3.8	4.7	13.4	7.0
	T.	445.820	1,078.110	13.0				
	No T.	3,065.923	3,532.952	2.2				
Cow Milk		Milk Cows						
	Total	169.405	244.555	5.1	958.6	1,236.7	162.4	9.0
Honey	Total	5.000	7.500	6.0	44.0	44.0	0.22	5.9
	No T.	5.000	7.000	6.0	44.0	44.0		

* T means Technified Area
No T. means area not Technified

Sources: Agric. Programming Dept. - Technical Secretariat of the Superior Council for Economic Planning.

SUPPLY, DEMAND, AND PRODUCTION TABLES

(1972-73 = 1974)

(in millions of tons (as of 1966))

F A B R I C S	Total Demand		Production		Difference		Total Demand		Production		Difference		S F O R R R O L E			
	1972-73	1974	1972-73	1974	1972-73	1974	1972-73	1974	1972-73	1974	1972-73	1974	Stock	Supply	Deficit	
(in thousands of metric tons)																
Wool	327.5	471.7	327.2	409.3	471.7	= 2.4	=	327.5	471.7	327.2	409.3	= 2.4	327.5	471.7	327.2	409.3
Woolen	20.5	31.0	21.4	35.0	30.0	= 9.6	=	20.5	31.0	21.4	35.0	= 9.6	20.5	31.0	21.4	35.0
Woolen	42.7	55.7	42.5	55.9	55.9	= 3.0	=	42.7	55.7	42.5	55.9	= 3.0	42.7	55.7	42.5	55.9
Woolen	44.1	62.0	0.7	0.7	0.7	=	61.9	44.1	62.0	0.7	0.7	=	44.1	62.0	0.7	0.7
Woolen	43.5	56.2	43.5	56.2	56.2	=	=	43.5	56.2	43.5	56.2	=	43.5	56.2	43.5	56.2
Woolen	38.8	117.5	38.9	59.7	117.5	= 57.9	=	38.8	117.5	38.9	59.7	= 57.9	38.8	117.5	38.9	59.7
Woolen	1.1	1.3	1.0	1.3	1.3	=	=	1.1	1.3	1.0	1.3	=	1.1	1.3	1.0	1.3
Woolen	132.4	213.3	132.4	177.9	213.3	= 32.5	=	132.4	213.3	132.4	177.9	= 32.5	132.4	213.3	132.4	177.9
Vegetables	6.4	51.4	6.3	17.2	51.4	= 34.2	=	6.4	51.4	6.3	17.2	= 34.2	6.4	51.4	6.3	17.2
Vegetables	1.4	2.1	1.3	3.7	2.1	= 1.6	=	1.4	2.1	1.3	3.7	= 1.6	1.4	2.1	1.3	3.7
Vegetables	0.2	0.4	0.22	0.3	0.4	= 0.1	=	0.2	0.4	0.22	0.3	= 0.1	0.2	0.4	0.22	0.3
Vegetables	5.3	7.0	5.2	9.9	7.5	= 1.7	=	5.3	7.0	5.2	9.9	= 1.7	5.3	7.0	5.2	9.9
Vegetables	7.3	21.7	5.9	17.0	21.7	= 3.9	=	7.3	21.7	5.9	17.0	= 3.9	7.3	21.7	5.9	17.0
Woolen	1,453.6	2,220.6	1,453.6	1,901.2	2,220.6	= 379.4	=	1,453.6	2,220.6	1,453.6	1,901.2	= 379.4	1,453.6	2,220.6	1,453.6	1,901.2
Woolen	2.6	2.5	2.0	2.3	2.5	= 0.2	=	2.6	2.5	2.0	2.3	= 0.2	2.6	2.5	2.0	2.3
Woolen	0.7	13.6	0.7	0.9	13.6	= 12.7	=	0.7	13.6	0.7	0.9	= 12.7	0.7	13.6	0.7	0.9
Woolen	71.0	89.9	71.0	52.9	89.9	= 38.0	=	71.0	89.9	71.0	52.9	= 38.0	71.0	89.9	71.0	52.9
Woolen	4.6	5.9	4.6	5.9	5.9	=	=	4.6	5.9	4.6	5.9	=	4.6	5.9	4.6	5.9
Woolen	21.6	95.5	21.6	55.5	95.5	= 33.9	=	21.6	95.5	21.6	55.5	= 33.9	21.6	95.5	21.6	55.5
Woolen	0.3	6.6	0.3	4.0	6.6	=	=	0.3	6.6	0.3	4.0	=	0.3	6.6	0.3	4.0
Woolen	0.34	0.04	0.02	0.02	0.06	= 0.02	=	0.34	0.04	0.02	0.02	= 0.02	0.34	0.04	0.02	0.02
Woolen	35.2	19.2	35.2	39.2	39.2	=	=	35.2	19.2	35.2	39.2	=	35.2	19.2	35.2	39.2
Woolen	14.2	23.7	14.2	23.7	23.7	=	=	14.2	23.7	14.2	23.7	=	14.2	23.7	14.2	23.7
Woolen	4.7	35.3	4.9	35.3	35.3	=	=	4.7	35.3	4.9	35.3	=	4.7	35.3	4.9	35.3
Woolen	34.5	58.0	30.0	58.0	58.0	=	=	34.5	58.0	30.0	58.0	=	34.5	58.0	30.0	58.0
Woolen	4.0	12.0	5.9	7.0	12.0	= 4.4	=	4.0	12.0	5.9	7.0	= 4.4	4.0	12.0	5.9	7.0
Woolen	3.3	27.7	3.3	27.7	27.7	=	=	3.3	27.7	3.3	27.7	=	3.3	27.7	3.3	27.7
Woolen	1,328.3	1,710.0	1,328.0	1,929.6	1,710.0	= 239.7	=	1,328.3	1,710.0	1,328.0	1,929.6	= 239.7	1,328.3	1,710.0	1,328.0	1,929.6
Woolen	36.5	45.3	31.4	65.3	65.3	=	=	36.5	45.3	31.4	65.3	=	36.5	45.3	31.4	65.3
Woolen	14.4	14.0	10.4	14.4	14.4	=	=	14.4	14.0	10.4	14.4	=	14.4	14.0	10.4	14.4
Woolen	4.2	5.3	6.7	13.3	6.3	= 7.0	=	4.2	5.3	6.7	13.3	= 7.0	4.2	5.3	6.7	13.3
Woolen	174.4	237.5	174.4	201.7	237.5	= 33.1	=	174.4	237.5	174.4	201.7	= 33.1	174.4	237.5	174.4	201.7
Woolen	11.5	21.5	13.4	13.6	21.5	= 8.9	=	11.5	21.5	13.4	13.6	= 8.9	11.5	21.5	13.4	13.6
Woolen	6.1	0.33	0.22	0.3	0.33	= 0.13	=	6.1	0.33	0.22	0.3	= 0.13	6.1	0.33	0.22	0.3

Technical Secretariat of the S.F.O.R.R.

of the supply of cotton fiber in winter than in summer...

No. 4

SHARE OF SUB-CATEGORIES AND PRODUCTS IN TOTAL VALUE OF EXPORTS - 1970-72 & 1978

Products	Input values		Percentage		Increase value	
	1970-72	1978	1970-72	1978	1970-77/1978	
	Thous.lps.					
Cereals	Corn	2,340.7	3,586.4	4.5	3.4	6.3
	Rice	444.8	733.0	0.9	0.7	6.1
	Sorghum	13.0	76.4	0.1	0.1	5.4
	Wheat	11.0	11.0	-	-	-
	Total.....	2,819.5	4,406.8	5.50	4.2	6.2
Legumes	Beans	1,373.5	2,139.5	2.5	2.0	7.1
	Total	1,373.5	2,139.5	2.5	2.0	7.1
Starches	Yucca	373.0	333.0	.6	0.3	0.6
	Sweet potatoes	373.0	14.4	-	-	2.3
	Plantains	347.0	737.0	.7	0.7	11.4
	Total	1,093.0	1,084.4	1.3	1.0	6.9
Vegetables	Tomatoes	134.5	1,345.2	.2	1.2	41.0
	Onions	72.4	81.2	-	0.1	20.0
	Carrots	24.0	23.1	-	0.1	7.4
	Cabbages	29.4	66.1	-	0.1	12.3
	Potatoes	524.1	1,308.0	1.2	1.2	12.6
	Total.....	724.4	2,833.4	1.4	2.7	22.0
Fruits	Bananas	23,278.6	29,310.7	46.4	28.0	3.3
	Watermelons	76.1	33.4	.1	0.1	3.3
	Cantaloupes	59.8	520.5	.1	1.0	36.0
	Other green plantains	-	1.8	-	0.1	-
	Avocados	-	-	-	-	-
	Oranges	145.8	1,041.2	.4	0.2	27.
	Total	23,601.3	30,903.6	49.0	29.4	4.0
Oleaginous	Seaweeds	8.7	66.0	-	0.1	34.0
	Peanut	1.1	3.0	-	-	15.4
	African Oil Palm	716.3	1,123.3	1.4	1.0	6.6
	Cocconut	-	43.0	-	0.1	-
	Total	726.1	1,235.3	1.4	1.2	7.9
Coffee		7,216.0	17,527.2	14.0	16.7	13.3
Tobacco		2,110.3	7,623.7	4.0	7.4	21.0
Cotton		432.0	3,244.0	.8	3.1	33.0
Sugar cane		4,860.2	6,823.6	9.1	6.5	5.2
Total crops:		44,574.2	78,109.1	85.0	74.2	8.4
Livestocks:	Cattle	3,777.2	15,673.7	7.2	14.9	23.0
	Pigme	-	2,776.2	-	2.6	-
	Poultry	4,135.4	8,732.9	7.8	8.3	11.3
	Total Livestocks:	7,912.6	27,182.8	15.0	25.8	19.2
Total Crops and Livestocks:	52,486.8	105,291.9	100.0	100.0	10.6	

TABLE No. 5
IMPORTANCE BY TYPE OF CONSUMPTION IN CROP & LIVESTOCK SUBSECTORS
(1970-72 - 1978)

Type of Investment		Value of Invest. (Thousands of Lempiras)	Share in Subsector	Share in Subsector Percentage
<u>Area Using Modern Technology</u>				
CROPS				
Seeds	1970-72	2,433.5	5.5	4.6
	1978	6,654.4	8.5	6.3
Fertilizers	1970-72	26,056.4	58.5	49.7
	1978	42,487.9	54.4	40.4
Insecticides	1970-72	7,051.2	15.8	13.4
	1978	13,751.2	17.6	13.1
Herbicides	1970-72	475.5	1.1	0.9
	1978	746.2	1.0	0.7
Fungicides	1970-72	4,409.5	9.9	8.4
	1978	10,560.2	13.5	10.0
<u>Area Using Traditional Technology</u>				
Seeds	1970-72	4,148.0	9.2	7.9
	1978	3,909.2	5.0	3.7
SUB-TOTAL CROPS	1970-72	44,574.2	100.0	-
	1978	78,109.1	100.0	-
LIVESTOCK				
Seeds for pastures	1970-72	24.2	0.3	0.1
	1978	95.7	0.4	0.1
Fertilizers	1970-72	10.9	0.1	0.1
	1978	90.5	0.3	0.1
Concentrates	1970-72	4,143.8	52.4	7.9
	1978	13,863.1	51.2	13.1
Septicemia vaccine	1970-72	143.6	1.8	0.3
	1978	230.3	0.8	0.2
Internal Parasites	1970-72	673.1	3.5	1.3
	1978	886.2	3.3	0.8
External Parasites	1970-72	28.8	.4	-
	1978	161.0	.6	0.2
Salt & Mineral Supplements	1970-72	2,720.8	34.5	5.2
	1978	11,468.2	42.3	11.0
Antibiotics	1970-72	157.1	2.0	0.3
	1978	299.8	1.1	0.3
SUB-TOTAL LIVESTOCK	1970-72	7,902.6	100.0	-
	1978	27,074.8	100.0	-
TOTAL CROPS & LIVESTOCK	1970-72	52,476.8	-	100.0
	1978	105,203.9	-	100.0

No. 8

INVESTMENT COSTS, FIXED AND DEVELOPMENT COSTS FOR AGRARIAN
DEVELOPMENT PLAN 1974-1978 1/

Distribution	Total Costs in Million Lempias		
	Internal	External	Total
I. COSTS			
A. Fixed Investment	23.8	43.0	66.8
B. Financial Investment	100.1	41.3	141.4
C. Development Costs	118.9	29.6	148.5
Total	242.8	113.9	356.7
II. FINANCING			
A. Projects - Financing	66.7	50.8	117.5
1. Continuous	34.8	25.9	60.7
2. New	31.9	24.9	56.8
B. Projects without financing	176.1	63.1	239.2
1. In Progress	21.9	17.1	39.0
2. To be negotiated	154.2	46.0	200.2
Total	242.8	113.9	356.7
III. PROGRAM			
A. Development of Crop Production	40.1	10.4	50.5
B. " of Livestock Production	23.5	32.0	55.5
C. Irrigation	10.1	13.2	23.3
D. Agric. Mechanization	0.1	0.3	0.4
E. Agric. Commercialization	11.3	7.1	18.4
F. Research, Extension, Education and Agricultural Capabilities	21.4	13.3	34.7
G. Integral Development	6.0	7.9	13.9
H. Agrarian Reform & Colonization	130.3	29.7	160.0
Total	242.8	113.9	356.7
IV. EXECUTIVE ORGANS			
A. Ministry of Agriculture & Livestock	112.8	60.4	173.0
B. Superior Council of Economic Planning	3.2	6.6	9.8
C. National Development Bank	78.5	22.8	101.3
D. National Agrarian Institute	29.7	8.6	38.3
E. Central Bank of Honduras	17.3	15.3	32.6
F. Honduras Coffee Institute	1.5	0.2	1.7
Total	242.8	113.9	356.7

1/ Estimates on 100,000 families settled during this period. This does not include cost of land for Agrarian Reform.

Table II-1

Demand and Supply Projections for Basic Grains and Other
 Crops financed by loan, 1974-81. (Thousands of metric tons)

A. CORN

Year	Demand Projections* - (Thousands of metric tons)			Supply Projections*	Deficit
	Internal Demand	Exports	Total		
1974	419.4	9.5	428.9	376.3	52.6
1975	440.9	6.3	447.2	394.2	63.0
1976	464.0	3.1	467.1	392.3	74.8
1977	438.6	-	438.6	400.6	89.0
1978	514.3	-	514.3	417.8	96.5
1979	543.1	-	543.1	426.7	116.4
1980	572.8	-	572.8	435.8	137.0
1981	607.6	-	607.6	445.2	162.4

B. RICE

Year	External Demand	Exports	Total	Supply Projections	Deficit
1974	28.4	-	28.4	20.0	8.4
1975	30.2	-	30.2	19.3	10.9
1976	32.2	-	32.2	19.8	12.4
1977	33.4	-	33.4	19.9	13.5

Source: Technical Secretariat of the Superior Council of Economic
 Planning - Agricultural Sector Analysis, 1973

Table II-1

C. SORGHUM

Year	Demand Projections - (Thousands of metric tons)				
	<u>Internal Demand</u>	<u>Exports</u>	<u>Total</u>	<u>Supply Projections</u>	<u>Deficit</u>
1974	57.3		57.3	47.6	9.7
1975	60.5		60.5	47.7	12.8
1976	64.1		64.1	47.8	16.3
1977	68.6		68.6	47.9	20.7

D. BEANS

1974	50.9	10.2	61.1	58.1	3.0
1975	53.1	10.5	63.6	58.7	4.9
1976	55.6	10.7	66.3	59.5	6.8
1977	58.1	11.0	69.1	60.2	8.9
1978	60.4	11.5	71.9	60.9	11.0
1979	62.8	11.9	74.7	61.6	13.1
1980	65.4	12.3	77.7	62.4	15.3
1981	67.9	12.4	80.3	63.1	17.2

Source: Technical Secretariat of the Superior Council of Economic Planning - Agricultural Sector Analysis, 1973

Banco Nacional de Fomento
DIVISION DE CEREALES

Table II-3

LOCATION AND STORAGE CAPACITY

Department	Storage Facilities		Metric Tons
Fco. Morazan	<u>Tequecalpa</u>		
	Cerro de Mule		2773
	<u>Terminal Kennedy</u>		
	Warehouse	950	
	Silos	<u>13350</u>	14300
	Miraflores		4545
Choluteca	Choluteca		692
Comayagua	Comayagua		1100
Olancho	Juticalpa		473
	Catacamas		250
El Paraíso	Danlí		600
Fco. Morazan	El Porvenir		300
Cortes	<u>San Pedro Sula</u>		
	<u>Terminal</u>		
	Warehouse	950	
	Silos	<u>13350</u>	14300
	<u>Granaries</u>		
	Warehouse	900	
	Silos	<u>1818</u>	2727
	Puerto Cortes		692
Atlántida	Tela		627
Copan	La Entrada		300
Sta. Barbara	Olmistlan		300
Yoro	El Negrito		300
	Manchito		473
Cortes	Cuyamel		277
Choluteca	El Triunfo		300
	TOTAL		<u>64,932</u>

CENTRAL AMERICAN CIGARETTES

Country	Dec 72	Jan 73	Feb 73	Mar 73	Apr 73	May 73	Jun 73	Jul 73	Aug 73	Sep 73	Oct 73	Nov 73	Dec 73	Yearly Average
Costa Rica	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Guatemala	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Honduras	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
El Salvador	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Nicaragua	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Central America	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Yearly Average	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00

* Monthly Bulletin from SECRETARIA PERMANENTE DEL TRATADO GENERAL DE INTEGRACION ECONOMICA CENTROAMERICANA (SIESCA) for various months, for the period October 72 to January 74. Data for May, June, July, October, November were not available. All prices are given in U.S. cents per kilogram.



Tegucigalpa, D.C., 31 de mayo de 1974

Señor
Edward Moriscuilo
Director Agencia Internacional para el Desarrollo
Tegucigalpa, D.C.

Estimado Señor Moriscuilo:

El Plan Nacional de Desarrollo para 1974-78, requiere para su ejecución de grandes esfuerzos por parte del Gobierno y del pueblo, así como también de una asistencia sustancial por parte de instituciones internacionales de financiamiento, sobre todo en cuanto a la asignación de recursos se refiere.

El Plan, en lo relacionado al sector agrícola, incluye para 1974-78 proyectos dirigidos al aumento de la producción nacional, particularmente hacia el incremento de ingresos del pequeño agricultor, con atención especial al programa de asentamientos campesinos y a la promoción de cooperativas. Las normas relativas a prioridades agrarias nacionales, incluyendo la tenencia y utilización de la tierra cultivable, será promulgada en breve. El contenido básico de esta legislación ya es de su conocimiento, por lo que al Gobierno de Honduras, le interesa obtener financiamiento para la ejecución del programa agrario de fomento que está íntimamente vinculado con el Plan Nacional de Desarrollo, a efecto de que éste pueda realizarse durante los años 1975-78. El Programa incluye la ejecución de ocho proyectos, para los cuales se solicita financiamiento a la AID., y se detallan así:

RESUMEN DE LA SOLICITUD DE PRESTAMO A AID
(Costos estimados en Miles de Dólares)

<u>Nombre del Programa</u>	1975		1978	
	<u>Total</u>	<u>Préstamo</u>	<u>G de H</u>	<u>G de H</u>
A. Ventanilla de Cooperativas y de Empresas Asociativas	4.225	2.265	1.960	

[Handwritten signature]



<u>Nombre del Programa</u>	<u>Total</u>	<u>Préstamo</u>	<u>G de H</u>
B. Fondo de Consolidación de Asentamientos Modelos	6.985	4.000	2.985
C. Planificación, Coordinación y Evaluación	1.341	821	520
D. Fortalecimiento de Extensión	1.319	232	1.087
E. Mantenimiento de Vehículos	1.842	952	890
F. Semilla Mejorada	704	400	304
G. Educación Agrícola	1.763	1.464	299
H. Caminos Vecinales	2,528	1,866	662
TOTAL	20,707	12,000	8,707

El contenido del Proyecto y sus costos podrian sufrir pequeñas variaciones entre la fecha de la presente nota y la presentación de nuestra solicitud a sus Oficinas de AID en Washington, pero todo parece indicar que el Programa total no excederá de Veinte Millones de Dólares (\$20,000,000.00) y en consecuencia, por este medio estamos solicitando a la Agencia para el Desarrollo Internacional un préstamo por la cantidad indicada.

Tomando en cuenta la mayor demanda financiera sobre el Presupuesto Nacional durante los próximos cuatro años, tanto por los aumentos previstos en el gasto corriente y de capital, como por los requerimientos de contraparte para otros proyectos que reciben financiamiento foráneo, generalmente buscamos nos concedan términos más favorables en cuanto a la participación del financiamiento externo en relación a la aportación de recursos nacionales. No obstante lo anterior, para evidenciar la máxima prioridad concedida a este Programa estamos comprometiendo un porcentaje de contraparte más alto tanto en lo relativo como en lo absoluto, que para cualquier otro empréstito recibido de Instituciones Internacionales. Confío, sin embargo, en que el financiamiento solicitado se otorgue.

M. S.



Secretaría de Hacienda y Crédito Público

gord en los términos y condiciones más favorables que la AID pueda ofrecer.

En espera de sus prontas noticias quedo de usted atentamente,

MANUEL ACOSTA BONILLA
Ministro de Hacienda y Crédito Público

cc: Arch.



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E.O. 11652/IN/A
SUBJECT: REPORT FOR THE DAEC - AGRICULTURE SECTOR PROGRAM

SUBJECT REPORT WAS REVIEWED BY THE DAEC ON FEBRUARY
12. THE NEGOTIATING STRATEGY AND AGRICULTURE SECTOR PROGRAMS
ELEMENTS ARE APPROVED FOR INTENSIVE REVIEW SUBJECT TO THE
CONSIDERATIONS WHICH FOLLOW:



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ANNEX III
EXHIBIT B
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A. NEGOTIATING STRATEGY

THE DAC ENDOUSES THE STRATEGY AS PRESENTED IN THE REPORT, AND THE MISSION'S SUPPORT OF A PROGRAM OF MULTIPLE CREDIT MECHANISMS TO REACH THE SMALL FARMER.

B. OVERALL LEVEL

WHILE THE AMOUNT FOR THE AGRICULTURE SECTOR PROGRAM (DOLS 13.2 MILLION) IS NOT EXCESSIVE IN TERMS OF THE PROGRAM'S CONTENT AND REQUIREMENTS AND THE ESTIMATED GOM CONTRIBUTION, THE BUREAU'S FY 1974 OYB CONSTRAINTS MIGHT REQUIRE THAT THE LOAN BE AUTHORIZED IN TWO TRANCHE.

ACCORDINGLY, THE MISSION SHOULD BE PREPARED TO DISCUSS THE ALTERNATIVE OF PROCEEDING WITH ONE TRANCHE IN FY 74 AND THE OTHER IN FY 75.

C. MARKETING

THE CAP SHOULD DEMONSTRATE THAT PROVISION FOR MARKETING IS ADEQUATE TO MEET THE ANTICIPATED PRODUCTION INCREASES FLOWING FROM THE PROGRAM IN TERMS OF PROJECTED EFFECTIVE DEMAND, TRANSPORTATION, STORAGE AND PROCESSING. RELEVANT GOM POLICIES SHOULD BE ANALYZED. IN THIS REGARD, POLICIES INFLUENCING SUPPLY OF PRODUCTION INPUTS SHOULD BE DISCUSSED AS THEY BEAR ON THE DESIGN AND IMPLEMENTATION OF THE PROGRAM.

D. RESEARCH

DESPITE THE FACT THAT THE PROPOSED AID LOAN WILL FINANCE NO RESEARCH, THE CAP SHOULD DISCUSS THE GOM AGRICULTURE RESEARCH CAPABILITY NOW BEING SUPPORTED BY THE IDB IN TERMS THAT DEMONSTRATE THAT IT IS ADEQUATE TO SUPPORT ANTICIPATED DEMANDS OF THE AID-FINANCED GOM PROGRAM.

2. ALTHOUGH THE REPORT TREATS THE FOLLOWING POINTS, THEY ARE INCLUDED HERE TO EMPHASIZE THEIR IMPORTANCE OR TO ADD DIFFERENT DIMENSIONS TO THEIR ANALYSIS. CRITICAL ASSUMPTIONS SHOULD BE IDENTIFIED IN THE ANALYSES.



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A. PROFITABILITY ANALYSIS: THE CAP SHOULD DESCRIBE THE TECHNOLOGICAL PACKAGES TO BE USED IN CONNECTION WITH THE CREDIT PROGRAM, PARTICULARLY WITH RESPECT TO THE AGENTAMENTO PROGRAM. PROFITABILITY TO THE SMALL FARMER PARTICIPANTS SHOULD BE ANALYZED CAREFULLY, ASSUMPTIONS AS COSTS OF PRODUCTION (ESPECIALLY PRICES OF FERTILIZER AND OTHER CHEMICALS) AND MARKET PRICE (OR OFFICIAL SUPPORT PRICE) OF THE FARMERS' PRODUCTION SHOULD BE SPELLED OUT AS WELL AS THE BASIS FOR THE ASSUMPTIONS.

B. INSTITUTIONAL ANALYSIS: THE PUBLIC SECTOR INSTITUTIONS PARTICIPATING IN THE PROGRAM (USA, IBRD, BNF, MIN. COMMUNICAÇÃO, COOPERATIVE DEVELOPMENT OFFICE, AND CSPE) SHOULD BE ANALYZED AND THE CAP SHOULD DETERMINE THE ADMINISTRATIVE, FINANCIAL, AND TECHNICAL CAPACITY OF EACH TO CARRY OUT ITS PORTION OF THE PROGRAM AND JOINTLY TO CARRY OUT IN CLOSE COORDINATION THE PROGRAM AS A WHOLE. INSTITUTIONAL CAPABILITIES SHOULD BE REVIEWED AT BOTH THE NATIONAL AND FIELD LEVELS. THE KEY PRIVATE SECTOR INSTITUTIONS (PROSPECTIVE CUSTOMERS OF THE CREDIT WINDOW, LEMESSE) SHOULD BE ANALYZED WITH REFERENCE TO DEMAND FOR CREDIT AND ON THEIR CAPACITY TO MANAGE EFFECTIVELY CREDIT AND COMPLEMENTARY ASSISTANCE. FINANCIAL ASSISTANCE REQUIREMENTS SHOULD BE DETERMINED FOR EACH OF THE PRIVATE SECONDARY INSTITUTIONS AS WELL AS THE PRIVATE GROUPS THEY SERVE. THE ANALYSIS SHOULD BE PARTICULARLY COMPREHENSIVE FOR THOSE INSTITUTIONS (E.G., FUNDESA) WHICH THE MISSON BELIEVES MIGHT RECEIVE EARLIER ALLOCATIONS THROUGH THE WINDOW AND SHOULD TREAT THE QUESTION OF LONG-TERM VIABILITY FOCUSING ON HORIZONS OF CAPITALIZATION AND PROGRAM COSTS.

C. BUDGET: AN ANALYSIS OF THE AGRICULTURE SECTOR BUDGET INCLUDING THE OVERALL BUDGET, INCLUDING PROJECTIONS THROUGH THE PLAN PERIOD, SHOULD BE UNDERTAKEN TO DETERMINE THE CAPACITY OF GOV TO SUPPORT THE PROGRAM AND REASONS FOR ANY SHORTFALLS TO BE TAKEN IN CONNECTION WITH THE LOAN, INCLUDING SPECIFIC UNDERTAKINGS WITH REGARD TO ITS CONTRIBUTION TO THE AID SUPPORTED PROGRAM. THE ANALYSIS SHOULD TAKE INTO ACCOUNT THE IMPACT OF THE ENERGY CRISIS ON THE DOMESTIC ECONOMY AND ITS EFFECTS, DIRECT AND INDIRECT, ON THE OVERALL AND AGRICULTURE BUDGETS. THE RELATIONSHIPS

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THE AGRICULTURE BUDGET'S FIXED AND VARIABLE COSTS
IDENTIFIED IN SUFFICIENT DETAIL TO PERMIT
AG SECTOR PERSONNEL WILL HAVE ADEQUATE SUPPORT.

THE IMPORTANCE OF A COMPREHENSIVE AND
EVALUATION OF THE PROGRAM IS TO BE MAINTAINED
REGULAR, AS CONCERNING THE CREDIT MECHANISMS, THE
OBTAINMENT OF BASELINE DATA AND PURSUIT OF FOLLOW-UP
MUST BE STRUCTURED INTO THE LOAN. THE CAP SHOULD
PLAN FOR PERIODIC EVALUATION THROUGHOUT
IMPLEMENTATION PERIOD OF THE LOAN, INCLUDING PROVISIONS
FOR FUNDING AND PERSONNEL REQUIREMENTS.

REGARDING PROJECT, THE PREPARATION AND SUBMISSION OF THE
PROGRAM'S CADASTER LOAN STATUS AS PART OF THE REPORT IS AP-
PROPRIATE. WE CAUTION AGAINST THE DEVELOPMENT OF AN
EXCESSIVE CADASTER PROJECT WHICH WOULD, AT BEST, BE
EXTREMELY DIFFICULT TO MANAGE. A RELATED IMPORTANT CONSIDERATION
IS THAT THIS PROGRAM WILL COMPETE WITH OTHER AGRICULTURE
PROGRAM ELEMENTS FOR MANAGEMENT, TECHNICAL AND BUDGETARY
RESOURCES IN A CONTEXT WHERE SKILLED PERSONNEL ARE IN SHORT
SUPPLY. ACCORDINGLY, THE CAPACITY OF GOB TO UNDERTAKE THIS
PROGRAM WITH AGRICULTURE SECTOR AND
RELATED PROGRAMS WILL BE A MAJOR FOCUS OF THE CAP
REVIEW OF THE RELATED CAPITAL ASSISTANCE PAPERS WHICH,
IN ORDER, MUST DEMONSTRATE GOB CAPACITY. THE RESULTS OF
THE RECENT LA BUREAU EVALUATION OF SIMILAR PROJECTS ELSEWHERE
WILL SOON BE COMPLETED AND MADE AVAILABLE TO USAID.

ANY REQUIRED LEGISLATION PERTAINING TO AG SECTOR AND
RELATED PROGRAM DESIGN AND IMPLEMENTATION SHOULD BE ENACTED
PRIOR TO SUBMISSION OF THE LOAN PAPER FOR
FINAL REVIEW.

THE CAP SHOULD CONTAIN USSID'S COMMENTS ON THE EXTENT
OF EVIDENCE OF GOB COMMITMENT TO EACH ELEMENT OF THE
PROPOSED PROGRAM.

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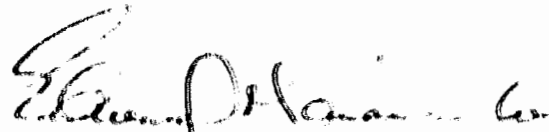
Honduras - Agricultural Sector

**CERTIFICATION PURSUANT TO SECTION 611 (c) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED**

I, Edward Marasciulo, the principal officer of the Agency for International Development in Honduras, having taken into account, among other things, the maintenance and utilization of projects in Honduras previously financed or assisted by the United States, do hereby certify that in my judgement, the Government of Honduras has both the financial and human resources capabilities to effectively maintain and utilize the Capital Assistance Project entitled Honduras: Agriculture Sector Loan.

This judgement is further based upon:

1. The execution of a formal Agricultural Sector Analysis by the Government.
2. The Government's declared interest in agricultural development, reinforced by actions in the area of agrarian reform taken during the past year.
3. The effective coordination of the various Government agencies associated with the Agricultural Sector, as demonstrated by the work of the Agricultural Sector Coordination and Consultative Committee.



Edward Marasciulo
Mission Director

May 30, 1974

Date



DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

ALLIANCE FOR PROGRESS

ALLIANCE FOR PROGRESS

DRAFT -

LOAN AUTHORIZATION

Provided from: PAA Section 103 ("Food and Nutrition")
Honduras: Agriculture Sector Program

Pursuant to the authority vested in the Administrator, Agency for International Development ("A.I.D."), by the Foreign Assistance Act of 1961, as amended, ("Act"), and the delegations of authority issued thereunder, I hereby authorize the establishment of a Loan pursuant to Section 103 of said Act, and in furtherance of the Alliance for Progress, to the Government of Honduras ("Borrower") of not to exceed twelve million United States dollars (\$12,000,000) to assist in financing the United States dollar and local currency costs of an Agriculture Sector Program ("Program") to be administered by the Ministry of Natural Resources, the National Agrarian Institute, the National Development Bank, the Superior Council for Economic Planning, and the Ministry of Communications and Public Works ("Executing Agencies"), specifically for the following Activities: Model Asentamiento Activity; Cooperatives and Associations Activity; Coordination, Management, Planning, and Evaluation Activity; Extension Services Support Activity; Vehicle Maintenance Activity; Improved Seed System Activity; Agriculture Information Activity; and an Asentamiento Access Roads Activity.

The loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment.

Borrower shall repay the loan to A.I.D. in United States dollars within forty (40) years from the date of the first disbursement under the loan, including a grace period not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter on the outstanding balance of the loan and unpaid balance.

2. Other Terms and Conditions.

- a. Except for marine insurance and ocean shipping, goods and services financed under the loan shall have their source and origin in Central American Common Market ("CACM") member countries and countries included in A.I.D. Geographic Code 941. Marine insurance financed under the loan shall have its source and origin in CACM member countries or any other country included in A.I.D. Geographic Code 941, provided, however, that such insurance may be financed under the loan only if it is obtained on a competitive basis and any claims thereunder are payable in convertible currencies. Ocean shipping financed under the loan shall be procured in any country included in A.I.D. Geographic Code 941, other than CACM member countries.
- b. United States dollars utilized under the loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.I.D.
- c. Prior to the date of execution of the Loan Agreement, A.I.D. shall have received in form and substance satisfactory to A.I.D. evidence that Borrower has enacted a new Agrarian Law, or has modified existing legislation to provide for:
 - (1) the ownership by the borrower of the lands wherein the A.I.D. capital investments are to be located; and
 - (2) the use, lease or ownership of such lands by the residents of said communities.
- d. Prior to any date of execution of the issuance of any commitment documents under the loan, A.I.D. shall have received in form and substance satisfactory to A.I.D. and Borrower:
 - (1) a plan detailing the estimated expenditures under the loan on a project for calendar year 1975, which plan shall be prepared jointly by Borrower and A.I.D.; and
 - (2) evidence of the Borrower's and the Executive Agencies' contribution to each activity to be financed under the loan during calendar year 1975.

e. Prior to any disbursement or the issuance of any commitment document under the Loan for the Model Agrarian Fund Activity, A.I.D. shall have received in form and substance satisfactory to A.I.D. and the Borrower or Executing Agencies;

(1) evidence of the establishment of a "Model Agrarian Fund" ("Fund") within the National Development Bank;

(2) evidence that the Executing Agencies have agreed in writing to

(a) the policies and procedures governing the operations of the Fund;

(b) a financial plan for Fund uses and a schedule for loan and Borrower inputs into the Fund;

(c) their respective responsibilities in the implementation of this Activity.

(3) evidence that:

(a) the final selection of the initial asentamientos to receive assistance pursuant to the Program has been made in accordance with criteria jointly established by the Executing Agencies and A.I.D.; and

(b) said Agencies and A.I.D. concur in writing in the selection of the initial asentamientos.

f. Prior to any disbursement or the issuance of any commitment document under the Loan for other than technical assistance for the Cooperatives and Associations Activity, A.I.D. shall have received in form and substance satisfactory to A.I.D. and Borrower and Executing Agencies:

(1) evidence that the Borrower shall provide for purposes of the Program the amount of \$1,500,000 in the form of budgetary transfers to the National Development Bank, which evidence shall include a schedule of such transfers;

(2) evidence that the National Development Bank shall have contracted for the services of two additional professional employees for the "Cooperatives Window" of said Bank;

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(3) evidence that the National Development Bank has established an advisory group to advise said Bank with respect to cooperative lending, which advisory group shall be representative of cooperative federations and other member-owned or non-profit institutions providing credit or other services to small farmers; and

(4) evidence that

(a) the National Development Bank has established within the Cooperatives Window:

(1) a Small Farmer Cooperative Production Credit Fund, and

(11) a Small Farmer Cooperative Capital Development Fund; and

(b) the Borrower and A.I.D. jointly accept in writing:

(1) the policies and procedures to govern the operations of said Funds, and

(11) a schedule for the utilization of loan and Borrower inputs pursuant to the Activity.

6. Prior to any disbursement or the issuance of any commitment documents under the Loan for the Agriculture Sector Coordination, Management, Planning and Production Activity, A.I.D. shall have reviewed in form and substance with the Borrower and A.I.D. and Borrower or Executing Agencies:

(1) evidence that the Executing Agencies have implemented an organizational plan for sector-wide planning, coordination and evaluation of activities under the Program, which plan shall include for each of the units for which technical assistance will be provided:

(a) a provision for the contracting of the unit's chief;

(b) a schedule of the unit's staffing; and

(c) an approved functional statement of each unit;

(2) a plan for the utilization of technical assistance and Borrower inputs provided under the Program for purposes of this Activity.

- h. Prior to any disbursement or the issuance of any commitment documents under the Loan for other than technical assistance for the Vehicle Maintenance Activity, Borrower shall cause the Ministry of National Resources to submit to A.I.D. in form and substance satisfactory to A.I.D. and Borrower or Executing Agencies:**
- (1) A current inventory of vehicles and spare parts;**
 - (2) A time-phased plan for**
 - (a) the construction and staffing of repair shops, and**
 - (b) the procurement of equipment to be used in connection with this Activity; and**
 - (3) evidence of the establishment of a spare parts inventory control system.**
- i. Prior to any disbursement or the issuance of any commitment documents under the Loan for the Improved Seed System Activity, A.I.D. shall have received in form and substance satisfactory to A.I.D. and the Borrower or Executing Agencies:**
- (1) evidence that**
 - (a) a revolving Fund ("Revolving Fund") with an initial capitalization of not less than \$25,000 has been established within the National Development Bank, in furtherance of the purposes of this Activity, and**
 - (b) the policies and procedures governing the operation of said Revolving Fund have been approved in writing by Ministry of Natural Resources, the National Development Bank and by A.I.D.**
 - (2) a schedule established by the Executing Agencies for the production of seed during calendar year 1975; and**
 - (3) a plan, formulated by the Executing Agencies, for the use of Loan and Borrower inputs into said Revolving Fund during calendar year 1975, and throughout the period of disbursement under the Loan.**

- j.** Prior to any disbursement or the issuance of any commitment documents under the Loan, for the Agriculture Education Activity, A.I.D. shall have received in form and substance satisfactory to A.I.D. and Borrower or Executing Agencies:
- (1) a statement detailing the policies and procedures governing the selection of participants, which statement shall have the written concurrence of the Coordinating Committee of the Executing Agencies ("CoCo") and of A.I.D.;
 - (2) a statement detailing the responsibilities of participants and the Executing Agencies pursuant to this Activity; and
 - (3) evidence that the Executing Agencies have executed contract(s) for services in connection with the administration of this Activity, the terms and conditions of which contracts shall have been approved in writing by said Executing Agencies and by A.I.D.
- k.** Prior to any disbursement or the issuance of any commitment documents under the Loan for the Access Road Activity, A.I.D. shall have received in form and substance satisfactory to A.I.D. a plan prepared by the Executing Agencies for access road construction and improvements to be executed with Loan funds for the Model Asentamientos Activity, which plan shall include plans of the Ministry of Communications and Public Works to provide personnel and other resources for construction and maintenance pursuant to the Activity. The Executing Agencies and A.I.D. shall have approved in writing said plan, and the criteria to be used in selecting the asentamientos to be included in said plan.
- l.** Prior to the issuance of any commitment documents under the Loan for Calendar Years 1976, 1977, and 1978.
- (1) the Executing Agencies and A.I.D. shall have conducted an evaluation of activities effected during the previous year pursuant to the Program; and
 - (2) the Borrower and A.I.D. shall have jointly programmed in writing the manner in which the Loan funds and related Borrower's contributions will be used during the subsequent year.

- m. Borrower and as appropriate, the National Development Bank, shall covenant and agree with respect to the Model Agrarian Fund, the Cooperatives and Associations and the Improved Seed System Activities, unless A.I.D. otherwise agrees in writing, to maintain the level of resources provided from loan funds and Borrower and/or National Development Bank inputs pursuant to the Program into the Model Agrarian Fund for the period of the Program (1975-1978) and into the Small Farmer Cooperative Production Credit Fund, the Small Farmer Cooperative Capital Development Fund and the Seed Improvement Revolving Fund.
- n. Unless A.I.D. otherwise agrees in writing, the Small Farmer Cooperative Capital Development Fund shall not provide credit for marketing projects until such time as a cooperative marketing plan has been completed.
- o. Borrower shall covenant and agree to maintain the level of Borrower and A.I.D. resource inputs into the Grains Stabilization Fund pursuant to A.I.D. Loan 522-L-021.
- p. Borrower shall covenant and agree to undertake an analysis of the interest rate structure to determine the interest rate to be charged on credit for the agriculture sector, recognizing that present policy provides for preferential rates.
- q. With the prior written concurrence of A.I.D., the transfer of loan funds among discrete Program Activities shall be authorized if such transfer to or from the amounts apportioned to any discrete Program Activity under the Loan will result in no more than a cumulative upward or downward adjustment of 15% of the funds apportioned to such discrete Program Activity under the Loan.
- r. The Loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Administrator

Date

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item, write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

FAA, 1973 - Foreign Assistance Act of 1973.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1974.

NMA - Merchant Marine Act of 1936, as amended.

BASIC AUTHORITY

1. FAA § 103; § 104; § 105;
§ 106; § 107. Is loan being made

- a. for agriculture, rural development or modernization; 1. This loan is being made for agricultural and rural development but will have positive impact on public administration, education and other areas.
- b. for population planning or health;
- c. for education, public administration, or human resources development;
- d. to solve economic and social development problems in fields such as transportation, power, industry, urban development, and export development;

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e. in support of the general economy of the recipient country or for development programs conducted by private or international organizations.

COUNTRY PERFORMANCE

Progress Towards Country Goals

2. FAA § 208; §.251(b).

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

(1) The Government of Honduras has placed a strong emphasis on increasing food production, and providing enlarged facilities for its storage and distribution. An on-going comprehensive analysis of the agricultural sector was initiated during CY1972. All the international agencies involved in Honduras economic development are contributing through various programs to the goals of increased food production and improved food distribution.

(2) Honduras is striving to create a favorable climate for foreign and domestic private enterprise. The GOH has an export promotion department in the Ministry of Economy. This department provides assistance to domestic firms entering international market and foreign companies wishing to invest in Honduras. Firms can obtain loans from several source including the Government-owned National Development Bank and the Central American Bank for Economic Integration.

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(3) Increasing the public's role in the developmental process.

(4) (a) Allocating available budgetary resources to development.

(b) Diverting such resources for unnecessary military expenditure (See also Item No. 20) and intervention in affairs of other free and independent nations.) (See also Item No. 11)

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

(6) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.

(3) Honduras is actively encouraging the participation of its citizens in the development process. The export promotion department, previously mentioned, assists private businessmen to develop the country's industrial base. The GOH is working with A.I.D. and other international donors in various grant and loan programs designed to strengthen private institutions, including coops. In addition the GOH's currently developing programs which will draw into the nation's economic mainstream the rural populace which accounts for 70% of the country's total population.

(4-a) Honduras has been allocating approximately 25% of its budget in the recent past for investment purposes.

(4-b) Military spending increased somewhat because of the 1969 hostilities with El Salvador. This increase does not appear to be disproportionate to Honduran defense needs. The material obtained has been used only for defense purposes and not to intervene in the affairs of other free and independent nations.

(5) At the present time the GOH is studying ways to improve its land tenure pattern. It recently experimented with one method of land reform. As a direct result of the Pilot and National Cadaster Projects the GOH is also considering revision of the property tax law. These Projects will assist the GOH develop a more rational land tenure pattern. Honduras does not restrict freedom of expression and of the press and recognizes the importance of individual freedom, initiative, and private enterprise.

(6) Honduras has been adhering to the principles of the Act of Bogota and Charter of Punta del Este.

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(7) Attempting to repatriate capital invested in other countries by its own citizens.

(7) The GOH is promoting capital repatriation by following a policy of direct assistance to local entrepreneurs through the export development department mentioned previously, and non-intervention in private enterprise.

(8) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

(8) During the present inflationary period the government has sought ways to cushion the blow of rising prices particularly for the lower income groups. It has emphasized the development of the rural sector where both the majority and the poorest segment of the population are found.

B. Are above factors taken into account in the furnishing of the subject assistance?

B. All of the above factors were taken into account.

Treatment of U.S. Citizens and Citizens of Recipient Country

3. FAA § 620(a). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?

(3) A.I.D. knows of no such indebtedness to any U.S. citizen.

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

(4) There is no evidence of any such action.

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5. PAA § 620(o): Fishermen's Protective Act. § 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters, (5) Honduras has not seized or imposed any penalties or sanctions against U.S. fishing vessels because of their activities in international waters during recent years.

a. has any deduction required by Fishermen's Protective Act been made?

b. has complete denial of assistance been considered by A.I.D. Administrator?

6. PAA, 1973 § 32. To what extent does government of recipient country practice the internment or imprisonment of that country's citizens for political purposes? (6) At present Honduras does not intern or imprison its citizens for political purposes.

Relations with U.S. Government and Other Nations

7. PAA § 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba? (7) Honduras neither furnishes assistance to Cuba nor permits ships or aircraft under its flag to carry cargo to or from Cuba.

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8. FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?
8. The Secretary of State has determined that Honduras is not controlled by the international Communist movement.
9. FAA § 620(d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan?
9. This loan is not intended to provide assistance to a productive enterprise of the type referred to.
10. FAA § 620(f). Is recipient country a Communist country?
10. Honduras is not a communist country.
11. FAA § 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?
12. During periods of unrest caused by factors such as the latest change of government in Chile where public attention is focused on the U.S., the GOH has at moments failed to contain demonstration which resulted in damage to USC property. To minimize this problem the GOH has given the Chancery a 24 hour guard.
12. Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?

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13. PAA § 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?
13. The OPIC Investment Guaranty Program is in operation in the country.
14. PAA § 620(n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?
14. A.I.D. has no evidence of Honduran involvement in such matters.
15. PAA § 620(q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?
15. Honduras is not in default on any such loan.
16. PAA § 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?
16. Honduras has maintained diplomatic relations with the U.S.
17. PAA § 620(u). What is the payment status of the country's U.M. obligations? If the country is in arrears, were such arrears taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?
17. Honduras is not in arrears to the extent described in Article 19 of the U.M. Charter.

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18. FAA § 481. Has the government of recipient country failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?
18. The COM has taken adequate steps to control illegal narcotics traffic. A special Narcotics Investigation Branch was established within the Police (CES) in 1970. Honduras is not at this time a channel for international traffic in heroin or cocaine, and in most cases have been in the area of international use, sale or growing of marijuana or the use of sale of amphetamines or barbituates. The Honduran Police have previously cooperated with MDD. Legislation was recently passed which updates a previous law by providing criminal penalties for newer forms of drug abuses.

19. FAA, 1973 § 29. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by U.S., and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?
19. No such base exists in Honduras.

Military Expenditures

20. FAA § 620(c). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)
20. According to official released figures, 7.9% of the COM budget is allocated to military spending during 1974. Only 0.9% of foreign exchange resources are being used for military equipment. The Mission believes the major portion of this fund is used for standard arms and ammunition, personnel costs, maintenance, etc. There is no reason to believe the COM has any sophisticated weapons systems.

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CONDITIONS OF THE LOAN

General Soundness

21. FAA § 201(d). Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.

21. The proposed loan is legal under Honduran and U.S. law and the proposed terms are reasonable for Honduras.

22. FAA § 251(b)(2); § 251(a).

Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

22. The activity has been found economically and technically sound. The Borrower has submitted a loan application to A.I.D. which contains assurance that the funds will be used in a sound manner.

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

23. It is reasonably certain that the GOH will be able to repay the loan. See Section IV-B of the CAP.

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

24. Financing for this project is apparently not available from other free-world sources, including private sources within the United States.

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25. FAA § 611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance?
25. The required plans have been completed and a reasonably firm estimate of the cost to the U.S. of the activity to be financed has been obtained.
26. FAA § 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of loan?
26. Since the GOH will repay the loan, ratification by the Chief of State and the Council of Ministers will be necessary prior to initiation of disbursements. A.I.D. loans made to the Government and its agencies in the past have been ratified on a timely basis.
27. FAA § 611(c). If loan is for Capital Assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?
27. The Mission Director has signed the certification included in Annex III Exhibit 3 of this CAP.

Loan's Relationship to Achievement of Country and Regional Goals

28. FAA § 207; § 251(a); § 113. Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs;
28. (a) This loan will directly strengthen the capacity of Honduran institutions responsible for carrying out agrarian reform in Honduras by providing technical assistance, improved manpower, commodities, and capital for increased sub-lending.
- (b) This loan will provide assistance for developing and carrying out agrarian reform projects that will increase the rural sector's efficiency and productivity.

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(e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or
(f) integrating women into the recipient country's national economy.

(c) There is a substantial training component in this loan.

(d) This loan will indirectly aid in meeting the country's health needs by improving nutrition.

(e) This loan has ear-marked funds for sub-lending to cooperatives and other similar farmer organizations.

(f) This project will employ women to the fullest extent possible.

29. PAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?

29. The project is not suitable for execution as a part of a regional project.

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

30. This project is consistent with the Government's development plan and the USAID's chosen emphasis on rural development.

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

31. Insofar as an improvement in the development of agricultural projects in Honduras is essential to economic development, this project will contribute to the achievement of self-sustaining growth.

32. PAA § 209; § 251(b)(8). Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.

32. To the extent that Honduras is economically strengthened by an improved agrarian structure and agricultural development capacity, the project will contribute toward economic and political integration and Honduras will be in a stronger bargaining situation in the CACM, thereby encouraging it to negotiate with other members.

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33. FAA § 251(g); § 111. Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.
34. FAA § 251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.
35. FAA § 251(a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.
36. FAA § 251(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.
33. It is expected that the Honduran Agrarian Reform program will be cooperative based. This loan is vital to that program. In addition a portion of loan funds programmed for sub-lending by the National Development Bank will be set aside for the use of farmer cooperatives and similar farmer organizations.
34. It has been determined that this activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress. (See Section I-C-4 of the CAP)
35. This Project will strengthen various institutions associated with the agricultural sector. In particular it will contribute towards development of the asentamientos which are designed to organize landless farmers and serve as a means for channeling assistance to them.
36. The loan is intended to assist in the needs of farmers in Honduras. The project requires the use of professionally or technically trained Hondurans. The project does not directly support the civic education objectives of this Section.

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37. FAA § 601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.
37. The Loan will encourage (a) the flow of international trade as a result of increased farm production; (b) cooperative development through a special fund established in the National Development Bank for the exclusive use of cooperatives and similar farmer organizations; and (c) improved technical efficiency in agriculture by providing assistance to the Ag. Extension Service. It will have very little impact in the other portions of this Section in a direct way.
38. FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?
38. Honduras is not a newly independent country.

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

39. FAA § 251(b)(4); § 102. Information and conclusion on possible effects of loan on U.S. economy, with specific reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.
39. This project will have no foreseeable adverse effects on the U.S. Economy.
40. FAA § 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurement from private sources.
- Approximately 50% of Loan funds will go to intermediate credit institutions for use by private enterprise. Over 75% of total loan funds will go to private enterprise.

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41. FAA § 601(b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
42. FAA § 601(d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?
43. FAA § 609. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.
44. FAA § 620(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?
45. FAA § 621. If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on
41. U.S. private trade and investment abroad will be indirectly encouraged through improved social and economic welfare of the Honduran population derived from this project.
42. Services of U.S. consultants will be used to the maximum extent.
43. U.S. small business will be permitted to participate in the furnishing of goods and services financed by the loan.
44. This loan will not promote or assist foreign aid projects or Communist-Bloc countries.
45. Technical assistance to be financed under the loan will be furnished to the fullest extent practicable by private organizations or individuals.

whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

Loan's Compliance with Specific Requirements

46. FAA § 119(a); § 203(c). Has the recipient country provided assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the loan is to be made?
46. The recipient country has provided such assurance (See Annex III Exhibit 1).
47. FAA § 117. Will loan be used to finance police training or related program in recipient country?
47. No such use is contemplated.
48. FAA § 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions?
48. No such use is contemplated.
49. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?
49. The interest rate is 2% per annum during the grace period and 3% thereafter.
50. FAA § 603(a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President?
50. Yes.
51. FAA § 603(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?
51. No bulk procurement is contemplated.

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52. FAA § 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan?
52. The loan agreement will so require.
53. FAA § 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?
53. No such procurement is contemplated.
54. FAA § 604(f). If loan finances a commodity import program, will arrangements be made for supplier certification to A.I.D. and A.I.D. approval of commodity as eligible and suitable?
54. Loan does not finance a commodity import program.
55. FAA § 608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.
55. The loan agreement will so require.
56. FAA § 611(b); App. § 102. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?
56. This project is not a water or water-related land resource construction project.

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57. FAA § 611(e). If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?

57. The loan Agreement will require that construction contracts will be let on a competitive basis to the maximum extent practicable.

58. FAA § 612(b); § 610(b). Describe steps taken to insure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

58. Measures in contributing local currency to the project. See Section IV-A of the Capital Assistance Paper. No U.S. owned foreign currencies are available for utilization in the

59. FAA § 612. Will any of loan funds be used to acquire currency of recipient country from non-U.S. Treasury sources when excess currency of that country is on deposit in U.S. Treasury?

59. No such excess currency is on deposit in the U.S. Treasury.

60. FAA § 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

60. The U.S. does not own such excess foreign currency.

61. FAA § 620(c). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?

61. The loan Agreement will provide for specific use of the loan funds and thereby preclude allocation of the funds for such purposes.

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62. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million?
62. The production facilities for two seed processing plants will be improved. Total assistance will be approximately \$400,000.
63. FAA § 636(i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?
63. No loan funds will be used for this purpose.
64. App. § 103. Will any loan funds be used to pay pensions, etc., for military personnel?
64. Loan funds will not be used for this purpose.
65. App. § 105. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?
65. The Loan Agreement will so provide.
66. App. § 107. Will any loan funds be used to pay UN assessments?
66. No loan funds will be used to pay U.N. assessments.
67. App. § 109. Compliance with regulations on employment of U.S. and local personnel. (A.I.D. -- Regulation 7).
67. This provision will be complied with.

68. App. § 110. Will any of loan funds be used to carry out provisions of FAA §§ 209(d) and 251(h)?

NO.

69. App. § 114. Describe how the Committee on Appropriations of the Senate and House have been or will be notified concerning the activity, program, project, country, or other operation to be financed by the loan.

69. A description of this loan was included in the Congressional Presentation for FY 1974.

70. App. § 601. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by the Congress?

70. No loan funds will be used for propaganda purposes.

71. IMIA § 901.b; FAA § 640C.

(a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

71. a) The Loan Agreement will provide for compliance with this provision.

(b) Will grant be made to loan recipient to pay all or any portion of such differential as may exist between U.S. and foreign-flag vessel rates?

b) No such grant will be necessary.