

UNITED STATES GOVERNMENT

# Memorandum

TO : Mr. John L. Lovaas  
Chief, Program Office

DATE: October 12, 1977

FROM : Mr. Hollander *JH*

SUBJECT: Final Report of Performance Under Contract A.I.D. 522-T-387 *not on list*

Pursuant to Article I, Paragraph C of the above contract, I am happy to submit two copies of my report entitled Agriculture Sector Program in fulfillment of task two of the statement of duties of that contract. I leave to your discretion whatever distribution you may care to make of this document.

Fulfillment of task three concerning advice on economic and social indicators for inclusion in a proposed Honduran Statistical Data Book is the subject of a separate memorandum to you of today's date.

In a discussion on September 9, Mr. Robinson indicated his desire that I concentrate my efforts on task two as it relates to the agriculture sector program. By mid-September the time requirements for the task two type analysis for each of the eight discrete parts of the agriculture sector program had been brought into focus. In a discussion with Mr. Dagata on September 19 I pointed out the lack of available time under the terms of the contract to deal with all parts of the agriculture sector program. I also pointed out that even eliminating consideration of some of the program's components would leave no time available for performing task one, which is the preparation of success stories.

It was agreed that I would limit my review under task two to the model agrarian fund; the cooperative window; sector coordination, management, planning, and evaluation; and agriculture education. Any remaining time available would be used for the success stories. Unfortunately, as I indicated to you in our discussion on September 30, no time for task one has become available, despite a steady schedule of night, weekend, and holiday hours.

The unfailing spirit of friendliness and effective cooperation among all personnel with whom I dealt, both at the Mission and at the various GOH offices, has made this a particularly pleasant assignment.

I am indebted to the Mission for having assigned Lars Klassen to assist me. Lars has impressed me in a number of ways. He has shown an insight into the sector problems and possibilities that would be a credit to a more senior officer. He has handled himself well in dealing with the Honduran officials, with whom he obviously has established an easy rapport. He was most effective in taking care of all administrative arrangements, so that it was unnecessary for me to spend any time on such matters. Lars gives every indication of being presently suited for a more senior assignment and of having the capacity to go far in the Agency.



## AGRICULTURE SECTOR PROGRAM

### Introduction

This program provides \$12 million in loan-financed assistance, plus some small amounts in grant funds, for the GOM in eight separate but related fields of activity: a model agrarian fund to test the efficacy of farm management planning, including an intermediate level of agriculture technology, in furthering the government's asentamiento or land settlement program; a mechanism to provide financial and technical assistance for the development of agriculture cooperatives; improved coordination, management, planning, and evaluation in the agriculture sector; sectoral manpower training; technical assistance and vehicles for the GOM extension service; a vehicle maintenance program; an improved seed system; and an access roads program.

The report deals with the first four of the above listed program activities. It assesses the extent to which stated objectives were achieved, especially in terms of those whom the program was intended to help, and considers the impact on the target beneficiaries, and the appropriateness of the target groups selected.

### Summary

Of the 70 asentamientos for which financing through the model agrarian fund was scheduled by December, 1978, financing has been approved for 24, in an amount equivalent to \$1.5 million, with plans for an additional 17 asentamientos in process of either revision or approval. The first 40 plans to be approved were to benefit 1,576 families. The 24 plans now being implemented benefit 888 families. Of the total of \$6.3 million in A.I.D. and GOM funds earmarked for expenditure under this activity, an amount equivalent to \$-75 thousand was disbursed as of August 31, 1977. Action taken by the Mission earlier this year to strengthen the Honduran capacity for farm management planning should further the implementation of the model agrarian fund.

One of the purposes of the loan was the establishment within the BNF of a cooperative window to promote the development and financing of agricultural cooperatives. Most of the funds included in the loan for this function are not being used, and this purpose of the loan is not being fulfilled.

The cooperative window is charged with the responsibility of administering both the model agrarian fund and two other funds for financing agricultural cooperatives. The term cooperative window, however, exists only in the Mission's lexicon, the BNF referring to this activity as the Sección de Servicios a Cooperativas y Organizaciones

S. J. Hollander  
October 12, 1977

## Afines.

While the personnel assigned to the cooperative window has increased during the period of loan operations, the cooperative window remains without authority to determine policy with regard to loans to agricultural cooperatives, to approve such loans, or even to expedite their processing at the BNF.

Of the combined total of \$3.5 million in A.I.D. and GOH funds allocated for this activity, short-term financing has been provided in an amount equivalent to \$318 thousand to only one cooperative organization. That loan was subject to stiff collateral requirements. That loan is benefiting a total of 380 families. The chief of the Sección de Servicios a Cooperativas y Organizaciones Afines asserted flatly that BNF management, with the exception of the Bank's president, is "not interested" in lending to cooperatives. Under the recommendations of the report on the BNF prepared by the Servicios Técnicos del Caribe the authority of the cooperative window would not be strengthened. Apart from the model agrarian fund, nearly \$18 million is available for credit for agricultural cooperatives in A.I.D. and GOH funds from the agriculture sector loan and from two subsequent loans. These funds, under administration of the cooperative window, are not being used.

Limited sampling made during this study indicates that the target groups aimed at by the model agrarian fund and the agricultural cooperative funds include those who are literally the poorest of the rural poor in Honduras. The problem lies not in the appropriateness of the target groups but in the small, almost insignificant, size of the targets presently being reached. A judgment as to target accomplishment should await further program implementation, because, if farm management planning can be successfully adopted in Honduras, the size of the targets now being reached could be magnified many times.

Some notable progress has been made in the area of planning in the agriculture sector, particularly with regard to the creation of a statistics and analysis facility. Delays in loan implementation, however, have meant the deferment of many of the studies, and all of the evaluation, called for in the loan agreement. The Mission is endeavoring to help the GOH make some progress in untangling the existing web of sector coordination.

Funds earmarked for the training component of the sector loan program have been all obligated to provide training for a total of 149 participants in Latin America, outside of Honduras, and in the United States, and additional training has been or is being provided to 85 participants in Honduras. The corresponding program goals were 100 participants to be trained abroad, and 83 participants to receive training in Honduras.

Participants were programmed without reference to any study of manpower requirements in the agriculture sector. Thus, there is no way of determining whether the available funds have been used for the highest priorities of training in this sector. The GOH has now begun to give its attention to an analysis of manpower requirements in the agriculture sector with a view toward establishing priorities for future training.

Explanation of Organizational Symbols

BNF	National Development Bank
CAR	Regional Agriculture Committee
CARA	Regional Agriculture Advisory Committee
COCO	Inter-Agency Coordinating Committee for the Execution of Development Plans in the Agriculture Sector
COHBANA	Honduran Banana Corporation
COHDEFOR	Honduran Forestry Development Corporation
CONSUPLANE	Superior Council for Economic Planning
CPA	Agriculture Policy Committee
DIFOCOOP	Directorate of Cooperative Development
FACACH	Honduran Federation of Cooperative Savings and Loan Associations.
GOH	Government of Honduras
IHCAFE	Honduran Coffee Institute
INA	National Agrarian Institute
OPS	Office of Sector Planning

MODEL AGRARIAN FUND

This program provides financing for a total of 40 asentamientos to be established as a first stage. Those were to benefit a total of 1,576 families. An additional 30 asentamientos were to be established by calendar year 1978.

For this activity the loan agreement as amended earmarked a total of \$3.8 million in A.I.D. funds and the equivalent of \$2.5 million in GOH contributions.

As of the present date financing has been approved for a total of 24 asentamientos benefiting 586 families, according to the following details:

(Amounts shown in thousands of Lempiras)

<u>Designation</u>	<u>No. of Groups</u>	<u>Amount Authorized</u>	<u>Total Members</u>	<u>Manzanas Per Member</u>	<u>Loan Funds Per Member</u>
Choluteca	11	1,592	282	9.4	5.6 <sup>1/</sup>
Juticalpa	8	800	208	7.4	3.8
Tela Atlántida	5	634	98	7.3	6.5 <sup>1/</sup>
<b>TOTALS</b>	<b>24</b>	<b>3,026</b>	<b>588</b>		

	<u>Short Term Credit (Up to 18 months)</u>	<u>Long Term Credit (Five to Seven years)</u>	<u>TOTALS</u>
Choluteca	1,059	523	1,592
Juticalpa	522	278	800
Tela Atlántida	220	414	634
<b>TOTALS</b>	<b>1,811</b>	<b>1,215</b>	<b>3,026</b>

<sup>1/</sup> The greater amounts of funds to be loaned per member reflect larger capital investments in the Choluteca and Tela Atlántida groups.

Authorized Use of Sub-Loans

Crop Production

Cotton	L. 701	
Rice	407	
Corn	390	
Sugar	156	
Melon	123	
Other Fruits & Vegetables	80	
Platano	79	
Cacao	42	
Sorghum	40	L. 2,018
		<hr/>
Farm Improvements, Machinery & Farm Animals		1,008
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<b>TOTAL</b>		<b>L. 3,026</b>
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In addition to the sector program funds approved for financing the above asentamientos, the BNF has agreed to refinance old debts amounting to L.234,000, so that the total debt burden for these groups is L.3,260,000.

Farm management plans for another nine asentamientos are currently being revised. Eight additional plans are in process of approval and 41 other asentamientos have been pre-selected, pending further review and preparation of farm management plans.

It will be observed that more than 40 percent of the value of production sub-loans that have been authorized will be used for the production of cotton and sugar. According to the provisions of the loan agreement, cotton and sugar are among the crops for which A.I.D. funds are not to be used, financing of such crops being attributed to GOH contributions to the program.

As of August 31, 1977, the most recent date for which information is available, combined A.I.D. and GOH expenditures for the model agrarian fund activity totaled the equivalent of \$479 thousand.

Model Agrarian Fund in Operation

What appears to be a representative sample of the model agrarian fund in operation is provided by the Cooperativa Agropecuaria 19 de Julio, situated near Monjarás in the vicinity of Choluteca. The 19 de Julio cooperative was organized in 1973, shortly after the issuance of Degree No. 8, which provided for emergency land reform. The cooperative was given 130 manzanas of expropriated land. It has a present membership of 21.

The loan to the 19 de Julio cooperative is in the amount of L.123,343 at a rate of interest of 11 percent annually. Of this amount L.81,183 is a short term credit for financing the production of sugar cane and melons, and L.42,160 is a long term credit for financing farm improvements.

The president of the cooperative is Lauriano Aguilar, a wiry, slightly built man in his late thirties, the father of eight children. Prior to joining the cooperative he worked as a farm laborer. He estimates that in good years the total cash income of his family could have amounted to as much as L.500. He lives in a one room house with dry mud walls and a dirt floor.

The 19 de Julio cooperative received financing from the BNF for both 1974 and 1975. In those years the cooperative raised corn, rice and melons. However, floods washed out the 1975 crop leaving the cooperative unable to repay its production credit to the BNF, said to have amounted to L.144,000. As a result, the cooperative received no financing for the 1976 crop year. To earn their living the cooperative members resorted to subsistence farming and occasional work as farm laborers.

The creation of the AID-financed model agrarian fund meant another chance for Aguilar and his associates. Extension agents from the BNF and MNR and a representative of INA, working with Aguilar and his group, prepared a plan for the 1977 crop year so that the cooperative could be included in this year's financing through that fund.

The basis of the plan is a 37 page questionnaire which comes in two parts. The first, or analytical part, constitutes a detailed inventory of the various factors of production, including labor supply, and information as to the actual and potential use of the land. The second part of the questionnaire is a five year production plan, including, among other things, the quantities of such commodities as seeds and fertilizers needed by crop to fulfill the plan, labor, machinery, and animal requirements, and an investment plan.

The planners recommended to the 19 de Julio cooperative that the rice and corn crops be replaced with sugar cane, and that melon production be resumed. The cooperative accepted the recommendation, and received a simplified statement showing how much money the BNF would lend for each crop as well as for the farm improvements. The statement also provides a breakdown of the amounts to be loaned for each farming operation (e.g. land preparation, seeding, fertilizing, etc.), and the month when each such operation is scheduled to take place.

The loan funds are disbursed as each separate phase of the production plan is fulfilled. Many of the costs of goods or services are paid by the BNF directly to the suppliers. As each phase of the production plan is completed to the satisfaction of the BNF and MNR extension agents, the amount that is due to the cooperative members is paid in cash by BNF jointly to Aguilar as president, and to the cooperative treasurer. This amount is distributed among the members according to the amount of time each member contributed to the farm work. This procedure is repeated for each stage of production. There appears to be ample supervision by the extension agents, who are said to visit the cooperative from four to six times per month.

When the cooperative's crops are sold, with BNF help, the first call on the proceeds will be to repay the crop loan. Whatever surplus funds remain would normally be distributed among the members in proportion to the total time each member has worked in the production and harvesting of the cooperative's crops.

Aguilar expects to earn about L.1,000 this year from his work toward producing and harvesting sugar cane and melons. Primarily because of the sugar cane crop, this year's total farm production is expected to be quite profitable. Nevertheless, no surplus funds will be available for distribution to the cooperative members this year in view of the unpaid debt to the BNF going back to the disastrous 1975 crop year.

The above procedure differs somewhat from the BNF financing of agricultural groups not included in the model agrarian fund. One important distinction in financing groups not related to the model agrarian fund is that there is no effort at analysis or farm management planning to determine the most efficient use of available land and labor. Instead, investment plans are made for the financing of specific crops. Another distinction is that for non-model agrarian fund groups the investment plans are not developed by an inter-agency committee, but by individual extension agents in collaboration with the group members. A third difference is that while disbursement of PNF funds is made pari passu with the fulfillment of the phases of the investment plans, the supervisory control by BNF and MNR extension agents is said not to be nearly as rigorous in the case of groups not included in the model agrarian fund.

#### Program Delays

(a) Background - The A.I.D. loan should be viewed as support for a Honduran response to the age-old Honduran problem of agrarian reform. In December 1972, faced with pressure from the National Association of Peasants of Honduras and from the National Peasants Union, the Honduran government was overthrown. The new government issued the



above referred to emergency Decree No. 8 which established the asentamientos or settlements of landless campesino families on unused or underused government or private land.

By the time the loan paper was prepared in June, 1974 nearly 1,600 families had been settled by the GOH on a total of 373 asentamientos. The asentamiento movement has continued to grow until there are now reported to be more than 900 of these settlements providing land and jobs for some 32,000 families. The significance of these numbers is indicated by the 1974 agricultural census according to which, at that time, the Honduran rural population consisted of 350,000 families, of which 35 percent or 123,000 families had no access whatsoever to the land.

The asentamientos to be financed under the A.I.D.-financed program were carefully selected after planning, involving among other things, the availability of resources, such as soil quality, water, and available labor supply in the settled families. As a condition precedent to the signing of the loan, the GOH passed an agrarian reform law which replaced Decree No. 8, and made it possible for the asentamientos to acquire legal titles to their properties. The A.I.D. loan was signed in December, 1974.

In 1975, before the A.I.D.-financed asentamientos could get started, a political upheaval in the GOH resulted in a change of administration in INA, the agency directly responsible for organizing the asentamientos. The new INA leadership repudiated a prior understanding which had been reached with A.I.D. on the selection of the asentamientos in the A.I.D. program, and insisted on new criteria, which A.I.D. considered unsound. A.I.D.'s inability to accept the new criteria led to the dormancy of model agrarian fund. The emergency credit funds available under the A.I.D. rural reconstruction and recovery loan in response to Hurricane Fifi are said to have relieved GOH officials of the pressures that might have encouraged them to seek an earlier agreement with A.I.D. on asentamiento selection.

In any event, further changes in the INA administration occurred in March, 1976, resulting in an asentamiento program with which A.I.D. could agree.

(b) GOH Capacity for Farm Management Planning - A basic purpose of the model agrarian fund was to demonstrate how the new farm groups that are being developed could be turned into viable commercial ventures, instead of following traditional patterns of subsistence farming or low productivity single crop production in which best alternative farm plans are not considered. The A.I.D.-sponsored planning involves an intermediate level of agricultural technology, including improved seeds,

fertilizers, pesticides, and similar chemical products.

Generally in Honduras there had been no effort to plan a farm business as a whole, taking into account such factors as climate, rainfall, soil, labor supply, available machinery, financial resources, and markets, so as to determine what kind of production will make the most efficient use of the land and labor.

Unfortunately, without extensive outside technical assistance, the GOH experienced great difficulties in introducing this type of planning. These problems led to additional project delays. Finally, by March 1977, with A.I.D. assistance, extension agents of the BNF and MNR assisted by INA agents, and, working with the campesinos in the selected groups, produced acceptable plans for the 24 asentamientos mentioned above.

The Mission earlier this year took what appear to be effective measures to improve the GOH capability at farm management planning. Pursuant to the small farmer technologies loan, which was authorized in December, 1976, a 12 man group of management planning advisors was established within the MNR. Additional objectives of that loan include training and research related to farm management planning, and additional credit for the asentamientos.

The farm management planning group is proceeding to establish regional planning groups composed of representatives of INA, BNF and MNR. Six of such groups have recently been formed, each group selecting its own coordinator, and each group being responsible for helping to develop the plans of six asentamientos. The members of each group report to their respective agencies.

The goal of the central farm management planning group is to establish 15 regional farm management planning groups by June, 1978, and 75 by June, 1980. This appears to be a considerable task in view of the training to be required for the regional groups.

The plan is for each regional group, working under the supervision and guidance of the technicians in the central group, to assist the campesinos in the preparation of farm management plans, to review, and, if appropriate, to approve such plans to be used as documentation to support the asentamientos' applications for credit from the BNF.

For the time being it appears that it will be incumbent upon the regional planning groups to draft the plans, although it is planned that eventually at least the better organized asentamientos will be able to draft their own plans.

The campesinos do not necessarily have to follow the advice of the regional planning groups in order to obtain BNF credits. For example, the members of an asentamiento could view a suggestion for the cultivation of a new crop as too risky. In such a case the BNF would still provide credit, provided that the campesinos' alternative plans appear feasible in the view of the regional farm planning advisory group. Extension agents of the BNF and MNR are available to help the campesinos to carry out the approved plans.

The central farm planning management group is attempting to fulfill the goal of 250 asentamiento plans by June, 1980, as stated in the capital assistance paper for the small farmers technology loan. In addition, there are expected to be completed the remaining 16 of the 70 farm-management plans scheduled under the agriculture sector loan. This adds to be a total of 320 farm management plans, an impressive goal when considered in the light of the total of some 900 asentamientos now reported to have been established. In addition, by June 1980, there are expected to have been prepared a total of 150 additional farm management plans for individual farm families.

Considering the problems in assembling 75 regional planning groups recruited from three separate Honduran agencies, in providing training and supervision for those groups, and in view of the problems in coordinating the policies of INA, BNF and MNR at both the national and regional levels, the goal of 320 group plans and 150 individual family plans could prove to be formidable, although successful results from the farm management plans should doubtless lead to some replication on nearby asentamientos and small individual farms having similar factor endowments.

There would appear to be a unique opportunity in Honduras to come to grips with agrarian reform, in view of the action already taken by the government to move masses of landless rural people to group farms, in view of the active concerns shown by the government in such areas as agricultural credit, extension, and education, and in tackling the problems of coordination in this sector. If the concept of farm management planning can be successfully adopted in Honduras, the model agrarian fund will have made a major contribution. The time frame in which program objectives were scheduled to be accomplished may require re-examination. It is noted that the evaluation called for in the loan agreement will provide a comparison of the results obtained through the model agrarian fund with those obtained in a non-participating control group.

It will be recalled that in accordance with Section 102(d) of the FAA one of the five high priorities of concern to A.I.D. is that of increasing productivity on small farms. It would be difficult to conceive of an activity designed more directly to achieve this purpose.

(c) Banco Nacional de Fomento - Another reason for the delay in loan implementation may be found in the lending policies of the BNF, which administers the model agrarian fund, as well as the small farmer cooperative production credit fund and the small farmer cooperative capital development fund. The latter two funds are discussed in the next section of this report.

The BNF has administered a special lending program authorized in 1973 for asentamientos under the provisions of Decree No. 8. Funds for that program were to be provided by INA and BNF. According to the August, 1977 report on BNF by Servicios Técnicos del Caribe, that program was suspended in 1976 because of the failure of INA to continue its financial support.

In connection with the negotiations for the agriculture sector loan, the Mission suggested that the administration of BNF funds for the asentamientos and other types of agricultural cooperatives become known as the cooperative window, and an amount of \$744,000 was transferred to the Bank from another A.I.D. loan for this purpose. However, this terminology never caught on at BNF, which has proceeded to call the administration of its agricultural cooperative lending activities the Sección de Servicios a Cooperativas y Organizaciones Afines.

The loan paper for the agriculture sector loan described the lending policies of the BNF in these terms:

"BNF is considered to place an over-emphasis on the financing of annual crops to be secured by harvests and largely unwilling to provide longer term capital needed for the improvement of land and development of more profitable farm activities. INA 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."

According to the chief of the Sección de Servicios a Cooperativas y Organizaciones Afines, the above quotation still pretty much reflects the attitude of BNF management, except that he goes further, flatly stating that, with the exception of the Bank's president, BNF management is "not interested" in making loans to cooperatives.

The Assistant Manager of FACACH attributes the problem in the lending policies of the BNF to the Bank's middle management group who are said to feel no urgency in approving loans to small farmers, the resulting delays causing the borrowers to miss the opportune time to commence crop production activities. As a

result, it was said, loans to small farmers frequently wind up being used for purposes other than crop production.

The Sección de Servicios a Cooperativas y Organizaciones Afines has the organizational status of a section at the BNF instead of the more senior status of a division. The Sección lacks authority to determine BNF policy respecting loans to cooperatives or similar organizations, to authorize such loans, or even to expedite their processing when such loans are under consideration. Policies pertaining to cooperative lending and the processing and approvals of loans to cooperatives are under the jurisdiction of the other departments of the BNF.

An illustration of the BNF attitude toward lending to cooperatives is provided by a loan that was made to FACACH which is discussed in greater detail in the following section dealing with the small farmer cooperative production and the capital development funds. At the time of this inquiry the FACACH loan was said to be the sole loan made by BNF from those two funds.

BNF demanded and obtained collateral worth more than twice the value of the FACACH loan, including a mortgage on FACACH real estate and a guarantee from a U.S. affiliate, the Inter-American Foundation.

The loan to FACACH, which was made in December 1976, is almost entirely a short term credit which the borrower would like to rollover in order to provide additional crop production financing for next year. BNF indicated reluctance to approve an application to renew the loan, considering such a rollover as a "prórroga" or a request by the borrower for an extension of time in view of his inability to repay the loan when due. In connection with its application for short term credit, FACACH also applied for a long term loan in the amount of L.143 million. After a 10 month waiting period BNF responded to this application by informing FACACH of the documentation that will be required, including FACACH's offer of additional collateral, if BNF is to give further consideration to the application for the long term loan.

Perhaps the ultra-conservative lending policies of the BNF stem from the fact that as of December 31, 1976, the Bank's portfolio of loans to the agricultural cooperatives and similar organizations, largely GOH financed, had a delinquency ratio of approximately 37 percent. Nevertheless, the kind of lending criteria exemplified by the FACACH loan would not appear consistent with the objectives of the program being financed under the agricultural sector loan.

In addition to the above referred to amount of \$6.3 million in A.I.D. and GOH funds earmarked for the model agrarian fund under the agriculture sector loan, a total of \$14.2 million has been reserved for similar lending operations by the cooperative window under the second rural reconstruction and recovery loan and the small farmer technologies loan. The only disbursements from these funds to date have been the sum equivalent to \$479 mentioned above in connection with the agriculture sector loan. The Sección de Servicios a Cooperativas y Organizaciones Afines administers an additional \$3.5 million earmarked in the agriculture sector loan for the small farmer cooperative production credit and the capital development funds.

The above referred to report of Servicios Técnicos del Caribe on the BNF calls for a revised credit policy for the Bank, with special attention to be given to the needs of the asentamientos and other types of agricultural cooperatives. BNF would not take into its own accounts, but would administer as a trust, those GOH funds intended for lending to such organizations, apparently employing procedures somewhat similar to those used in connection with the suspended INA- BNF program referred to above.

The present Sección de Servicios a Cooperativas y Organizaciones Afines would become known as the Unidad de Servicios a Organizaciones Agrarias. The newly named unit would exercise such functions as identifying, developing, and strengthening farmers' organizations so as to enable such groups to obtain and utilize more effectively credit from BNF. Just how such functions differ from those now being performed by INA does not appear clear. In any event, the responsibility for policy determination and for approval and processing of loans for agrarian organizations would remain with the other offices of BNF.

The Mission may wish to reexamine the plans for the formation of the Banco Nacional Agropecuario to determine whether adequate provisions are included therein for the dynamic and effective administration of funds loaned by A.I.D. for cooperatives and similar organizations.

#### Technical Assistance for the BNF

Approximately \$265 thousand in loan funds earmarked for technical assistance for the cooperative window were designated for the preparation of, "a cooperative agricultural marketing/input-supply master plan and long-term advice in its execution," and for technicians to help develop the window's credit policies and procedures. The Chief of the Sección de Servicios a Cooperativas y Organizaciones Afines states that bureaucratic problems within the BNF delayed the initiation of study, which is now nearing completion by a local firm of consultants called INVEST.

The INVEST study which cost \$21,500 was programmed before the planning for the sector assessment now in progress. The coordinator of the assessment was unaware of the existence of the INVEST study.

At this time any relationship of that study to the sector assessment is not clear.

Loan-funded technical assistance was programmed to permit the cooperative window to develop "... as a specialized function within the Bank to contribute more effectively to assisting small farmer cooperative groups and allied organizations in the larger development of the cooperative movement." The chief of the Sección de Servicios a Cooperativas y Organizaciones Afines said that his plans to recruit a team of technicians from the reportedly well functioning Bank for Cooperatives in Ecuador to provide assistance of this type were disapproved by the management of BNF.

As its counterpart contribution to the technical assistance mentioned above, the BNF agreed to increase the staff of the cooperative window from one to three officers, to designate an officer in each BNF branch as the primary contact on cooperative loans, and to form an advisory group of cooperative organization leaders to assist BNF.

The staff of the Sección de Servicios a Cooperativas y Organizaciones Afines in the BNF Head Office has now been increased to 11, nine of whom are on board. Cooperatives officers are being designated in 19 of the BNF's branches that have dealings with cooperatives.

An advisory group was formed but its effectiveness appears questionable. The group, which is composed of eight representatives of Honduran cooperatives and similar organizations, has thus far met twice in 1977. The principal concern of the advisory group is said to be obtaining concessions from the BNF in the form of lower interest rates and longer terms of repayment. BNF's inability to accede to many of such requests has caused the advisory group to lose interest in BNF.

Additional technical assistance that was programmed in connection with the agriculture sector loan to help the Honduran cooperative movement consisted of two short-term, grant-funded technicians who were to provide assistance to BNF "...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."

This has been translated into two contract technicians who are currently completing their tours of duty in Honduras, which consist of providing courses in accounting for various cooperative organizers. The Mission is currently evaluating this activity.

SMALL FARMER COOPERATIVE PRODUCTION CREDIT FUND AND SMALL FARMER  
CAPITAL DEVELOPMENT FUND

This activity was intended to complement the model agrarian fund by providing credit to "... the large number of small farmers who are not members of the asentamientos." A total of \$2 million in A.I.D. and GOH funds was earmarked to provide annual production credit and some medium term loans to farmers who do not have access to institutional credit. The loan paper identified demand for loans of this type as "... aggregating well in excess of \$5 million."

For the small farmer capital development fund, a total of \$1.5 million in A.I.D. and GOH funds was set aside: "... to finance long-term productive investments that offer the greater benefits relative to cost in moving significant groups of small marginal farmers a step up the income ladder;" and "... to make a small but significant beginning in the development of cooperative infrastructure to render efficient marketing and input supply services to small farmers." The loan paper estimated the first year's demand for loans from this fund to be "... approximately \$4.8 million."

As mentioned above, as of the time of this inquiry FACACH was reported as the only borrower from either fund. The chief of the Sección de Servicios a Cooperativas y Organizaciones Afines explained that because of organizational or administrative problems affecting other Honduran cooperative organizations, those groups have been found ineligible to participate in fund financing. FUNDHESA has been disqualified because of an existing repayment delinquency to BNF.

It is doubtful that many Honduran cooperative organizations will be found in a position to meet the previously described loan collateral requirements imposed by BNF on FACACH.

FACACH

The membership of FACACH consists of 112 Honduran savings and loan associations which, on their part, have a total of some 32,000 members. Included in the membership are merchants, students, laborers, professional people, as well as farmers of all types. In connection with its main purpose of furthering the development of savings and loan associations, FACACH operates a program of technical assistance and supervised agricultural credit for marginal farmers. FACACH counts 10 extension agents among its staff of 50.

The BNF loan was made to FACACH in December, 1976 in the amount of L.636,203, of which L.622,603 was a short term credit, and the balance, L.13,600, for a beekeeping project, was charged to the capital develop-



ment fund. With the exception of the latter project all production loans are being used to finance rice, corn, beans, or tomatoes.

The short term credit runs for 15 months, and the capital development fund credit is due in three years. At A.I.D.'s request, BNF did grant FACACH a concessional interest rate of six percent per annum, instead of the customary 11 percent. FACACH, in turn, loaned the funds at 11 percent per annum to its member cooperatives, which reloaned the money to their members at 15 percent. FACACH explained the large spread between the cost of its borrowed and reloaned funds by pointing to the necessity to cover the cost of its large technical assistance program.

According to data supplied by FACACH, that organization used the BNF loan to make a total of nine sub-loans to seven member cooperatives. Five of those cooperatives reloaned the funds received from FACACH to a total of 306 individual farmers in the following amounts:

<u>Up to</u> <u>L.1,000</u>	<u>L.1,001 to</u> <u>L.5,000</u>	<u>L.5,001 to</u> <u>L.10,000</u>
214	78	14

The average size of the land holdings among the individual farmers is 3.09 manzanas.

The remaining two cooperatives reloaned the money received from FACACH to two asentamientos having a combined total of 74 members, making a total of 380 families that were benefited from the BNF loan to FACACH. One of the asentamiento loans was in the amount of L.36,556 plus the above mentioned L.13,600 loan for beekeeping while the other asentamiento loan was in the amount of L.190,330.

For the combined 380 families, the average size of land holdings is 3.12 manzanas. While the data available for sampling is too limited to be of great significance, it is noted that the BNF has made 24 direct loans totaling L.3 million to asentamientos having a combined total of 588 members, or an average loan of L.5.1 thousand. On the other hand, FACACH has made nine loans totaling L.636 thousand to cooperatives for relending both to individuals and asentamientos in benefit of a total of 380 families, or an average loan of L.1.67 thousand per family.

A closer look was taken at one of the two loans made to asentamientos. This was the crop production loan authorized in the amount of L.36,556 for the San Pablo Savings and Loan Cooperative, for relending to an 11 member asentamiento headed by Marcial Aguilar. Of the amount authorized, L.32,640, was earmarked for disbursement, L.3,264 having been set aside to capitalize the asentamiento members' shares in the San Pablo cooperative, and L.652 being charged as a loan supervision fee.

The loan was a follow-on credit to an earlier loan which had been made for financing a tomato crop and irrigation equipment. The purpose of the more recent loan was for financing the production of 10 manzanas

of rice and 20 manzanas of tomatoes. Thus far an amount of L.20,029 has been drawn down from the latter loan with payment due in six months, or by July 14, 1977. However, due to a poor tomato crop, the loan could not be paid when due, leaving a present balance of L.10,362, which is expected to be further reduced by proceeds from the sale of the recent harvest of a portion of the rice crop.

The coordinator of the asentamiento, Marcial Aguilar, is a man in his forties with a wife and five children. The asentamiento was organized in 1974 by Aguilar and 14 other landless farm laborers. At that time the annual cash income for the Aguilar family did not exceed L.100. The asentamiento received from INA an "Acta de Posesión," giving the group the right to occupy 70 manzanas but not the title to the property. It was said that steps are being taken that will eventually result in a transfer of title to the group.

In 1975 FACACH made a detailed pre-feasibility study of a proposed production credit program for marginal group farmers who were either members of the San Pablo cooperative, or who could become members. The two above referred to loans were made to Aguilar's group following feasibility studies and investment plans, also made by FACACH.

Aguilar stated that four of the original members of the asentamiento dropped out, being unwilling to continue the back-breaking work regularly required in the fields.

As in the case of the asentamientos financed directly by BNF, the San Pablo cooperative sub-loan is disbursed in accordance with progress made in the various stages of crop production and harvesting. The farm work is closely supervised by extension agents of both FACACH and of the San Pablo cooperative. Payments to suppliers for production expenses are usually made directly by the San Pablo cooperative.

One difference, however, between the group production financing by FACACH and that undertaken directly by BNF is that in the case of the former the asentamiento members receive a weekly wage during the period of production and harvesting, subject to verification by the San Pablo cooperative that the asentamiento members are on the job. After harvesting, the crop is sold by the San Pablo cooperative, which after deducting the amount of the loan outstanding, credits any remaining balance to the individual savings accounts of the asentamiento members in proportion to the number of days each member worked. All members receive the same wage.

Aguilar's wages are L.15 per week during the period of production and harvesting, from which is deducted an amount of L.1.25 which he is required to save at the San Pablo cooperative. FACACH estimates that Aguilar's total income from this production year may be as much as L.1,200 including both his wages and his share of any surplus after the loan to the San Pablo cooperative has been completely repaid.

FACACH appears to be a well administered organization, having readily available complete and up-to-date records on all aspects of its loan received from BNF, as well as of its sub-loans to its member cooperatives, and the loans made to their members. FACACH officials state that if funds were available they could lend money to a number of other savings and loan cooperatives for relending to other asentamientos or other types of collective farms similar to the loans being financed by the San Pablo cooperative, depending on the type of organization and administration of the group farms.

In view of its programs of technical assistance and of carefully planned and supervised agricultural credit for groups of marginal farmers, as well as for individual small farmers, FACACH would appear to merit further consideration as one means of enabling the Mission to broaden its target group to be reached through the agriculture sector loan and related loans.

APPROPRIATENESS OF TARGET GROUPS SELECTED

The model agrarian fund is aimed at assisting landless farm laborers or poverty stricken subsistence farmers with annual family incomes generally less than \$250.00. The small farmer cooperative credit and small farmer capital development funds are aimed in the same general direction, but include farmers who own individually, rather than as group members, small plots of land. The appropriateness of such target groups to the Congressional mandate is self evident. The relevance of the program to Section 102 (d) of the FAA was noted earlier.

The Mission's emphasis on support for group farming rather than individual owners of small farmers may be questioned. There would appear to be several valid reasons for such emphasis in target selection. For one thing, the unknown entrepreneurial aptitude of the landless campesino with respect to commercial farming represents a high degree of risk for any program that would help establish him as an independent farmer. In group farming this risk is spread and becomes less for the group as a whole than for any one individual. Then there is the question of the economic feasibility of capital investment in single family farms of less than four hectares. The BNF estimates that the cost of providing credit for individual small farmers is nearly seven times that of providing credit to group farms. Available extension services would appear to be used more economically on group farms than if provided to farmers on a one-on-one basis.

However, the main reason for the emphasis on support for the asentamiento program is that the Mission would appear to have no other choice if it is to make a meaningful contribution toward assisting the poorest of Honduras' rural poor. The asentamiento program is the approach that the GOH has taken to provide land and livelihood for those people. At the same time, in designing its targets, the Mission did not overlook the small single family farm, and created the funds for small farmer cooperative credit and for capital investment for this purpose.

The target problem lies not in appropriateness but in the small, almost insignificant, size of the targets presently being reached. Improvement in the Honduran capability for developing farm management plans should help to broaden the number of people receiving benefits through the sector loan program. A judgement as to target accomplishment should await further program implementation, because, if farm management planning can be successfully adopted in Honduras, the size of the targets now being reached could be magnified many times.

In any event further attention appears required to strengthen the mechanism used by the BNF to administer credit for agricultural co-

operatives, including asentamientos, if the Mission's program is to achieve its potential. As is noted below, the Mission is presently working with the GOH to improve coordination in the agriculture sector.

## SECTOR COORDINATION, MANAGEMENT, PLANNING, AND EVALUATION

During early discussions with GOH officials leading to negotiations for the agriculture sector loan, Honduran planning and coordination deficiencies became apparent. At that time the planning unit in MNR consisted of three or four employees whose principal function was to receive and consolidate annual data received from the various sections of the Ministry. To the extent that there was planning at the autonomous agencies in the agriculture sector, such as INA or BNF, it was performed by those agencies.

With a view toward improving coordination and planning in the agriculture sector, in March, 1975 the GOH created a coordinating committee referred to as COCO, which is headed by the Minister of Natural Resources, and composed of the heads of CONSUPLANE, BNF, INA, CONDEFOR, IHCAFE, DIFOCOOP, and COHBANA, and a representative of the Ministry of Finance and Public Credit. The primary function of COCO is to coordinate the execution of the agriculture sector plans of the various agencies as reflected in the national development plan, and to evaluate operational plans in the agriculture sector.

The requirement that COCO's decisions be unanimous has reduced the effectiveness of that body. For example, it required COCO six months to approve a transfer of \$220,000 from the model agrarian fund to the agriculture education activity, even though such a transfer is permitted under the terms of the loan agreement.

In order to improve COCO's effectiveness as a coordinating mechanism, a Technical Commission was organized, composed of the planning chiefs of the agriculture sector agencies and headed by the chief of the MNR Sector Planning Office. The Technical Commission functions as the staff arm of COCO, recommending actions related to COCO's functions, including commissioning studies by other agencies.

In addition, COCO has established seven Regional Agriculture Committees (CAR) made up of the regional directors of the MNR and INA, the directors of one or more local offices of the BNF, and, where applicable, regional directors of IHCAFE, CONDEFOR, COHBANA, and DIFOCOOP. The functions of CAR include assisting the Technical Commission in the preparation, coordination, and evaluation of the annual sector operational plan, seeing that necessary studies are made, keeping COCO advised on conditions in the field, and coordinating the services of the various public agriculture institutions at the regional level.

Still another coordinating agency is the Regional Agriculture Advisory Committee (CARA) which exists at the regional level for the purpose of coordinating, evaluating, and supervising the execution of the programs and projects of MNR. In addition CARA advises the Minister

on MNR's annual budget, program, and plan. Each CARA is composed of the regional directors and regional coordinators of the various projects being implemented in the region.

Further efforts were made to strengthen the coordination and planning in the agriculture sector by the creation of the Comision de Política Agrícola (CPA), the Secretary of which is the Executive Secretary of CONSUPLANE. CPA is composed of the Ministers of Natural Resources, Finance and Public Credit, Economy, and the Executive Director of INA. CPA appears to function broadly in the development and execution of agriculture sector policies, occupying a position in this respect somewhat analogous to that of a Ministry of Agriculture in other countries.

According to the Technical Secretary of the CPA, the GOH still lacks effective planning in the agriculture sector. For example, the autonomous agencies are reluctant to follow any sectoral plan which appears in conflict with legislation governing their operations. Moreover, budgetary allocations to the autonomous agencies appear as fixed line items in the national budget, authorizing expenditures by those agencies which may be inconsistent with sectoral plans.

A report prepared by D.E. Anderson in May, 1977 for MNR entitled, "Problems and Constraints Within the Public Agricultural Sector in Honduras," well documents some of the major problems of coordination and organization in the agriculture sector. Current Mission support for GOH efforts to resolve these problems should have a useful payoff.

While the above array of planning and coordinating agencies is cumbersome, some notable progress has been made in this general area. For example, in 1975, CONSUPLANE produced Honduras' first agriculture sector operational plan which covered 1976, and reflected the plans of the autonomous agencies. The 1976 plan was concerned with sector goals and policies, and the investment program for that year. An improved version was prepared for 1977, having been based on more detailed information which was specifically requested in advance from each agency by CONSUPLANE. Also in 1977 MNR produced for the first time an annual comprehensive plan for its own operations containing, among other data, elaborate statistical tables including information such as, for example, production goals for each crop by region, with further breakdowns showing total hectares, production per hectare, total metric tons to be produced, and the prospective demand for extension services for each crop.

At the MNR, the Office of Sector Planning appears to be developing into an effective statistics and analysis agency.

The main indication of progress would appear to lie in the fact that the pertinent GOH officials now are aware of many of the problems facing them with respect to agriculture sector planning and coordination, and are making serious efforts to solve these problems. Prior to the agriculture sector loan there does not appear to have been any such awareness.

#### Office of Sector Planning (OPS)

OPS was organized as a result of the negotiations leading up to the agriculture sector loan. Although according to the loan paper, OPS was supposed to "... work in close coordination with the Planning Unit of each sector institution," OPS has developed almost exclusively into a statistics and analysis unit within MNR. When OPS was organized it brought together some 18 employees who by that time had been engaged at the Ministry in various planning and statistics functions. Today OPS has a direct hire staff of 70, and uses contractors for some of its requirements.

The loan agreement calls for certain studies to be made by OPS. In the field of statistics, OPS is said to have accumulated a considerable amount of data relating to such subjects as time series of agricultural production and prices of specific crops, estimates of the national herd of farm animals, agricultural production by crop and region, agricultural employment by crop and region, and agricultural earnings by farm size. Information has also been collected on productivity changes by crop, but reasons for the changes have not been determined. A number of other statistical studies have either been completed or are in progress including crop forecasts, production and marketing of garden crops, poultry production, formation of a data bank, production and distribution of improved seeds, industrial use of agricultural products, and an agricultural statistical compendium.

Under the terms of the loan agreement the analysis section of OPS was to conduct a series of pre-feasibility studies. These studies have not been made. Instead, the analysis section is reported as having been working on the preparation of regional mathematical models of agricultural production, factors of production, and demand.

The loan agreement also provides for a number of feasibility studies for specific projects, to be performed by contractors. Studies in this area that have been made to date by both contract and direct hire personnel include those relating to soya, peanuts, sorghum, melons, tomatoes, potatoes. In process are feasibility studies relating to citrus fruits, sesame, cacao, henequen, and irrigation projects.



The loan agreement further provides for a number of studies in the fields of management of GOH institutions involved in the sector program, as well as an extensive program of evaluations. There was also to be established a continuous reporting system covering the activities of each GOH institution engaged in the program. Furthermore, a number of social and organizational problems were to be studied, such as, for example, the campesinos' ability to absorb new technology and patterns of land tenancy.

Insufficient progress has been made in loan implementation to warrant any of the kinds of studies referred to above, with the exception of the baseline data which was to be completed before loan disbursements began. That study was made by ATAC. The reporting system of the program activities of the GOH institutions has not been established.

## EDUCATION

The loan agreement provides for 100 participants to be trained abroad in specialized fields of study in various institutions located primarily in Mexico and other Latin American countries, and in the United States. An additional 83 participants were to receive training in Honduras. A total of \$1,684,000 in A.I.D. funds, including \$220,000 transferred from the model agrarian fund, was allocated for this activity, and GOH contributions have totalled the equivalent of \$577,000, or somewhat more than the \$115,000 specified in the loan agreement.

Within the Honduran government the responsibility for this portion of the agriculture sector program was placed in the hands of COCO, which established a Comisión de Coordinación y Becas, composed of representatives of MNR, BNF, INA, and CONSUPLANE, the agencies authorized to nominate participants under this program.

The Comisión de Coordinación y Becas, in turn, re-delegated the responsibility for administering the major part of the program to EDUCREDITO; a private but non-profit organization formed in 1968 by the Honduras cooperative movement for the purpose of carrying out a student loan program with funds obtained from government and private contributions. A.I.D. had made a \$2 million loan to the GOH for EDUCREDITO in 1971. A representative of EDUCREDITO attends the meetings of the Comisión.

A key feature of the program is that the becas are awarded as loans to the participants, not as grants. This means that the participant is held personally responsible for the loan, and, in addition, must obtain a guarantor for an amount equal to 20 percent of the amount of his loan. Upon successful completion of the prescribed course of study, 10 percent of the participant's debt is forgiven. Upon completion of a tour of duty with the sponsoring agency equal to twice the period of time that was required for his training, an additional 75 percent of the debt is cancelled. <sup>1/</sup> This leaves the participant with the obligation to repay 15 percent of the cost of his training, which represents EDUCREDITO's administrative costs, and he is given an extended period to meet this obligation.

If the participant does not comply with his obligations to complete his training successfully, or to serve the specified length of time with his sponsoring agency, he becomes liable for the entire amount of his debt. The becas cover such costs as tuition, books, maintenance, and

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<sup>1/</sup> Participants who receive training in Honduras are obligated to work for their sponsoring agencies for the same number of years for which their training was financed, but in no case longer than three years, the maximum length of any beca.

transportation. In addition, each participant, who is employed by an agency of the GOH, continues to receive his salary from his sponsoring agency during the period of his training.

Students are nominated by the participating agencies for approval by the Comision. Approximately 90 percent of the candidates are employees of the sponsoring agencies. The remaining candidates must agree to accept such employment for the stipulated length of time after the completion of their training, and must be able to show that their families have means of support during the training period. Approximately 60 percent of all participants have been sponsored by MNR, with BNF and INA accounting for the remaining.

In accordance with the Comision's regulations, all candidates must be Hondurans, must meet certain age requirements, and must undertake, "... studies of direct interest to the Agriculture Sector Program."

The initiative for applying for a beca rests with the candidate. A candidate who feels that he has the necessary qualifications submits an application to an internal beca committee, one of which was established at MNR, BNF, and INA. At MNR, for example, the committee is composed of the head of the personnel department, the head of the department of human resources, the three directors general of MNR, and the vice-minister. Factors that are considered in weighing qualifications include progress at work, the number of years of services, age, record of academic performance during the last three years of the candidate's education, and the relationship of the proposed course of study to the agriculture sector program.

The MNR internal beca committee estimates that it has rejected about 20 percent of all applications received. Those approved are forwarded to COCO's Comision.

Of 245 nominations submitted by MNR, BNF, and INA to the Comision, only four were rejected. An additional seven participants withdrew their nominations pending with the Comision after reflecting on the obligations they would be required to assume. Becas have been awarded to the remaining applicants, accounting for all funds presently available.

The 234 becas have been programmed for training in the following areas;

<u>Area of Training</u>	<u>Participants</u>		
	<u>To be Trained</u>	<u>Short-Term (Less than six months)</u>	<u>Long-Term (Up to three Years)</u>
Honduras	85	52	33
Other Latin American Countries	94	45	49
U.S., including Puerto Rico	55	11	44
TOTAL	<u>234</u>	<u>108</u>	<u>126</u>

According to the Executive Director of EDUCREDITO, holding the participants personally responsible for the cost of the training has resulted in an extraordinarily high success rate. Of the 234 participants, only two are reported to have dropped out, both of these for emotional reasons. Two more are said to be experiencing difficulties with their studies. All of the short-term participants have completed their training and are working at the sponsoring agencies. Of the long-term participants, 15 have completed their training and are working for their sponsors in Honduras.

All debts due to EDUCREDITO from the participants are said to be current, including the 15 percent amounts for EDUCREDITO's administrative costs. The liquidation of the participants' obligations by successfully completing their studies and their required tours of duty will mean the absorption of 85 percent of the cost of their training by the GOH, without further reflows of funds to EDUCREDITO for financing more becas for the agriculture sector program.

Most of the courses of study appear to be of direct interest to the agriculture sector program, such as, for example, agricultural engineering, agricultural economics, entomology, mechanization, irrigation and drainage, and public administration. There are some courses, however, where the direct interest is not as apparent, such as the administration and management of zoological parks and some courses in fisheries.

According to the Executive Secretary of CONSUPLANE the problem with the education portion of the agriculture sector loan is that the selection of participants was not based on an analysis of the priority needs of trained manpower in this sector, but on the nominations of the participating agencies. The head of COCO's Comision, who is also the director general of operations at the INR, acknowledged this shortcoming, and was unfamiliar with the INR study, reported in the loan paper, covering the needs of INR for 160 people to be trained in various skills by 1978. However, a rudimentary statement identifying training requirements for INR, SNR, and INA beginning in 1978 has been issued, and reportedly will be soon followed by a more detailed study of this problem.

Because Honduras' needs for trained manpower in the agriculture sector are so pressing, it may argued that any specialized training in this sector will prove beneficial to the sector program, particularly in view of the commitment of the participants to render a minimal period of services to a sector institution after the completion of training. On the other hand, the very existence of a shortage of trained manpower would argue for the establishment of carefully considered priorities if the most effective use is to be made of available funds.

The Executive Director of EDUCREDITO also acknowledged the need for manpower data in the future programming of becas. He stated that he plans to make an analysis of Honduras' manpower requirements, using for this purpose a \$36,000 grant from the Inter American Development Bank.

UNITED STATES GOVERNMENT

# Memorandum

TO : Mr. John L. Lovaas  
Chief, Program Office

DATE: October 12, 1977

FROM : Mr. Hollander *AJH*

SUBJECT: Statistical Data Book

Pursuant to task three in the statement of duties of my contract, I have reviewed a draft scope of work for the compilation of a proposed data book. I have also reviewed the Statistical Data Book that was published in May, 1976 by USAID/Dominican Republic, as well as AIDTO Circular A-139 of April 1, 1977, including the attachment thereto entitled, "Socio-Economic Performance Criteria for Development."

As you know, the above cited airgram stresses the importance of responding to Section 102 (d) of the FAA which requires establishment of criteria to assess host country commitment and progress toward five categories of development goals: small farm agricultural productivity; infant mortality; population growth; income distribution; and employment.

The importance currently attached to the fulfillment of Section 102 (d) objectives raises the question as to why the Mission at this particular time should give its attention to the compilation and publication of a comprehensive set of development-related statistics, instead of concentrating on data which will help in meeting the requirements of Section 102 (d)?

It is assumed that the Statistical Data Book published by the USAID/Dominican Republic is intended to serve as a model for a similar compilation to be prepared for Honduras. The data in the DR publication appears to contain information of some relevance to all of the Section 102 (d) categories in that country, with the exception of small farm agricultural productivity.

However, some of the data that AID/W suggests be developed is not likely to be readily available. For example, the suggestion is made that for income distribution data there be pre-determined a poverty level of income. Improvement in income distribution could be indicated by, "(1) a reduction in the proportion of the population with per capita incomes below the predetermined poverty level; and/or (2) an increase in the per capita incomes of individuals below the poverty level."

Another example is in the category of employment data. The suggestion is made that there is needed information on the, "potential household labor supply and total family time-use in order to estimate true capacity in the household to raise income through more hours of work



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and to detect certain directly productive activities, for example, by women and children, that would not be counted as employment by conventional labor-force surveys."

To measure productivity of small farms, a preference is indicated for concept of total factor productivity, which will measure the growth of total output divided by total input. "Factors that contribute to increased total factor productivity, and which therefore are properly reflected in a TFP index, include investments in research, extension, education and training of the labor force, improved seed varieties, and modern agricultural inputs." However, if a TFP index is not feasible, agricultural labor productivity is an acceptable measure. In any event, careful analysis is called for in handling budgetary information regarding such long pay-off expenditures like agricultural research.

AID/W, then, is suggesting some fairly sophisticated numbers, the development of at least some of which would appear to require the establishment of certain data by means of household surveys, with trends discernible through subsequent surveys.

If therefore appears unlikely that the kind of statistical data exemplified by the Dominican Republic Statistical Data Book will fully satisfy the requirements of Section 102 (d) as interpreted by AID/W.

On the other hand, there would appear to be rich sources of information either already available in Honduras or in the process of being obtained, which, if properly mined and analyzed, could go a long way toward satisfying at least some of the stated requirements of Section 102 (d). Take, for example, small farm productivity. According to the loan paper prepared for the agricultural sector program, the SIF, "maintains figures showing costs of production of various crops according to amounts of labor, fertilizers and other inputs." The head of the Office of Sector Planning at the Ministry of Natural Resources states that he has accumulated data on changes in agricultural productivity, but is not satisfied with this data thus far because he cannot account for the changes. The AID/W baseline study, as amplified by the sector assessment now underway, should also yield useful information in this regard.

At an appropriate time the GOH may be interested in the offer by AID/W, contained in Annex C of the attachment to AID/W Circular A-139, for a grant of up to approximately \$100,000 per year for a minimum of four years for multipurpose household surveys. The technicians hired pursuant to such grants could exploit and analyze data now being obtained, and could conduct such other surveys as may be required.

For the immediate future, the Mission may wish to concentrate in compiling such Section 102 (d) type data as is readily available in Honduras. To the extent available data should be exploited to show trends in infant mortality, population growth, and employment.

Of no less importance, at this stage, at least, is the reference in Section 102 (d) to host country commitment, as contrasted with actual performance. There would appear to be a considerable volume of statistical data readily available to support GOM commitment, such as, for example, increases in expenditures for activities such as agricultural research, rural health, family planning, increase in the number of extension agents, agricultural credit, growth of asentamientos and other types of rural cooperatives, etc. Pending the development of the type of data suggested by AID/W as meeting Section 102 (d) requirements to measure actual performance, it may be that data bearing on Honduran commitment could prove to be among the most useful statistics available.

The Mission may wish to alter the scope of work as now drafted to focus the contractor's efforts on the collection of data presently available which bears directly on Honduran performance or commitment related to the five Section 102 (d) categories. Following the completion of this work, the Mission may wish to hire the same, or possibly a different contractor, to complete the more comprehensive set of statistics indicated in the outlined attached to the scope of work.