

INSTITUTIONAL AGRICULTURAL CREDIT: THE HONDURAN CASE

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B.S., Universidad Nacional Autonoma de Honduras, 1974

A MASTER'S REPORT

submitted in partial fulfillment of the

requirements for the degree

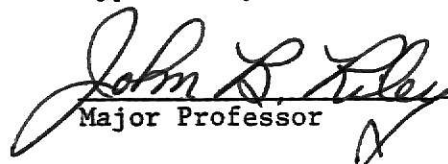
MASTER OF SCIENCE

Department of Agricultural Economics

KANSAS STATE UNIVERSITY
Manhattan, Kansas

1980

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ACKNOWLEDGMENTS

I express my sincere appreciation to Dr. John Riley for his patience, guidance, and advice in helping me to prepare this report. I am also grateful to Dr. E. Wayne Nafziger and Richard Phillips, members of my Supervisory Committee, for their help and advice. Thanks are also due the Honduran government for sponsoring my graduate studies at Kansas State University. Finally, I thank my family, especially my brother and sister, Carlos and Miriam, for their encouragement and support.

INTRODUCTION

Honduras has one of the highest population growth rates of Latin-America and the world. Most of the population lives in rural areas. Demand for food is increasing rapidly.

The non-agricultural sector is growing faster than the agricultural sector, but not fast enough to absorb those unemployed and the new entrants into the labor force. More than twenty years of developmental policies, incentives, and protection for the industrial sector have created a foreign dependent manufacturing industry which, in general, still cannot compete even with other countries of the Central American region. Several causes can be enumerated to explain the backwardness of the Honduran industry, but that is not the objective here.

A wiser approach to industrial development could be the establishment of a strong agri-industrial sector. The importance of the other economic sectors and their interrelations cannot be overlooked, yet, a great deal of the economic development of Honduras depends upon agriculture. Agricultural development in a country like Honduras is no longer a postponable task. It is in the direction of strong development that agricultural credit can play a relevant role.

Credit per se, however, does very little. An integral approach toward agricultural development includes credit plus all the measures for improving agricultural output, a more equitable income distribution, and for the rural people a better access to higher standards of living.

Whereas agricultural credit in Honduras is confronted by several problems, a first approach to solving them is analyzing, evaluating, and modifying the institutional phenomena. This report deals first with an

overview of the Honduran general economic conditions and, particularly, the prevalent conditions in agriculture. Second, consideration is given to the channeling of credit from external and internal sources in financing the Honduran agricultural sector. In relation to the internal financing, each of the governmental institutions linked to the agricultural credit is described, without considering in depth the constraints. Commercial banks which provide most of the banking credit are also discussed. In addition, information is given about other agricultural institutions which provide indispensable services to agriculture. Such services support the success of any agricultural credit program. Other developmental and complementary public and private institutions are also described. Third, based on works done by the United Nations Food and Agricultural Organization (FAO), the World Bank, and the U.S. Agency for International Development Program (U S AID), the general characteristics of agricultural credit in less developed countries (LDCs) are considered. Fourth, some suggestions are presented for gradual transformation of the existing Honduran agricultural credit scheme into a long-run program of agricultural development.

THE HONDURAN ECONOMY AND THE ROLE OF AGRICULTURE

The Economic Situation

Within its 112,088 Sq. Km., Honduras has an estimated population of 3.1 million people. From 1974 to 1978, the population annual growth rate was 3.6 percent. About 50 percent of the total population is below 15 years old. In 1978, 29 percent of the population was in the labor force. Total open unemployment was estimated at 9 percent. Statistically, labor force participation is low for women. Around 70 percent of the population lived in the rural areas.

Gross National Product (GNP) was \$1,686 million in 1978, a 38 percent increase from 1976 (Table 1). From 1974 to 1978, the growth in real GNP was 3.4 percent annually.

Table 1
HONDURAS: NATIONAL ACCOUNTS, 1976-1978^a

	1976	1977	1978
	----- (Million \$'s) -----		
Private Consumption	\$ 944	\$ 1,063	\$ 1,179
Government Consumption	174	208	320
Gross Fixed Capital Formation	276	350	444
Private	181	213	257
General Government	95	137	187
Increase in Stocks	- 50	- 16	29
Exports of Goods and Services	441	566	668
Less: Imports of Goods and Services	512	750	780
Gross Domestic Product	1,272	1,522	1,770
Less: Net Factor Payments Abroad	- 53	- 64	- 64
Gross National Product	1,219	1,458	1,686

^aCurrent Prices

Source: Banco Central de Honduras. Honduras en Cifras 1976-1978. Tegucigalpa, Honduras, 1979, p. 6

In 1978, agriculture contributed 32 percent of the GNP, followed by manufacturing with 17 percent. Manufacturing has grown at a faster rate than agriculture in recent years, however, the self-consumption aspect which characterizes the Honduran agricultural sector could underestimate its contribution to the GNP.

Table 2
HONDURAS: INVESTMENT IN PHYSICAL ASSETS, 1976-1978^a

Year	Gross	Source			
		External Saving	Internal Saving		
			Total	Government	Private
----- (Million \$'s) -----					
1976	\$235.6	\$111.8	\$123.8	\$32.7	\$ 91.1
1977	325.1	133.4	191.7	66.0	135.7
1978	429.4	197.5	231.9	81.1	150.8

^a Current Prices

Source: Secretaria del Consejo Superior de Planificacion Economica. Plan Nacional de Desarrollo 1979-1983. Tegucigalpa, Honduras, p. 10

Public investment has increased recently (Table 2). Much of the investment has been towards the improvement of the transport sector. The government, however, has recently become more active in social programs related to education and health.

Bananas, coffee and wood represented 65 percent of the country's 1978 exports. Other important export goods were beef, lead and zinc, silver, cotton, and leaf tobacco. On the imports side, the increasing price of oil has had a dramatic negative impact on the economy. Honduras does not produce petroleum; therefore, oil consumption is derived from imports. Oil is imported as a raw product for direct consumption and the production of electric power, as well as in the form of petroleum based raw materials needed for manufacturing. The value of imports by

type of good is shown in Table 3.

Table 3
HONDURAS: IMPORTS OF GOODS, 1976-1978^a

Type of Goods	Mil. \$	%	Mil. \$	%	Mil. \$	%
Consumer goods	\$107	23	\$139	24	\$167	24
Raw Matierals, petroleum and fuel	212	46	258	44	299	43
Capital goods and building materials	139	30	184	32	231	33
Others	1	--	---	--	3	--
TOTAL	\$459	100	\$581	100	\$697	100

^a Current Prices

(-) Quantities less than one million or one percent

SOURCE: Banco Central de Honduras. Op. Cit. p. 16

Even though the balance of trade from 1976 to 1978 was persistently and increasingly negative, such situation was offset by the inflow of capital which led to favorable results in foreign exchange. However, there has been an increase in the external debt which in 1978 was estimated to be \$827 million. The government is responsible for 60 percent of the total external debt, most of it destined for use in the transport and agricultural sectors. Service of the external debt is becoming increasingly costly as both interest rates and the amount borrowed increase.

The government has used internal financing also to cover the budget deficits carried by major developmental programs. In 1977 and 1978, about 20 percent of the internal revenues came from taxes and charges on exports, namely agricultural. Seventy percent of government revenues come from indirect taxes.

The money supply, M_1 , at the end of 1977 and 1978 is shown in Table 4.

Table 4
HONDURAS: MONEY SUPPLY, 1977-1978

	<u>1977</u>	<u>1978</u>
	----- (Mil. \$) -----	
Money supply ^a	\$220.3	\$262.5
Currency Outside banks	94.4	104.8
Demand deposits	125.9	157.7

^aIncluding demand deposits of the general government.

SOURCE: Banco Central de Honduras. Boletín Estadístico. Tegucigalpa, Honduras, Septiembre 1979, p. 15

Quasi-money (savings and time deposits) outstanding at the end of 1977 and 1978 was \$184.7 and \$230.8 million, respectively. Relating GNP to M_1 , the velocity of money was 6.6 for 1977 and 6.4 in 1978.

General price levels have been increasing in part because of the increment in oil prices, the contracts bargained by unions, and increments in wages granted by the government to its employees in recent years. Wages represent about 50 percent of the national income. The General Consumer Price Index rose at a 9.6 percent rate between 1977-1978.

It was estimated that the lowest 40 percent of the population captured only 6.5 percent of the income in 1968, while the middle 40 percent received 28.5 percent, and the top 20 percent captured 65 percent of the income. Among countries with less than \$300 per capita income Honduras had the worst income distribution.¹ Also, 38 percent of the population was considered below the poverty line of \$75, the second worst situation in Latin America.² There is no data to suggest

¹Meier, Gerald M. Leading Issues In Economic Development. Oxford University Press, Third Edition 1976, p. 19

²Ibid. p. 22

that the situation has improved substantially since 1968.

The Agricultural Situation

The total land area of Honduras is about 11.2 million hectares, with only 25 percent of the area potentially suitable for agricultural use. Sixty-six percent is hills and of no agricultural use; the rest, is for urban areas and other undefined uses.

Recent estimates indicate that 17 percent of the total land area is valleys which have alluvial soil, but are sandy very near the rivers and more clayey the further the land is from the river. The rest of the land is composed of mountainous areas with slopes between 20 and 60 percent. In many cases the soil shows a lack of phosphorus, magnesium, manganese and minor elements.

Only 33 percent of the land suited for annual crops is used to that end. On the other hand, most of the land which is utilized for annual and perennial cultures is suited only for forestry or another extensive use. The causes of this situation include extensive use of the land in large farms with good soils, intensive use by many small farms of land of poor quality, lack of roads, and high concentration of population in depleted areas.

The climate is tropical in the low lands and temperate in lands of higher altitude. The quantity and distribution of rain varies greatly in the different regions of the country, but in general there are two seasons, dry season and rainy season, although with different intensity and duration in the diverse regions. The average precipitation is 3,000 mm. year in the north coast area, and 900-1,800 mm. in the central region. The south coast has slightly less rainfall than the central

region. Agricultural activity is based on rain rather than on irrigated production. For that reason, the effects of weather are reflected in widely varying crop yields.

The volume of water in the rivers changes enormously from season to season. Flooding is present in periods of maximum volume. Erosion has increased because of elimination of the vegetation at the river source, burning, overshepherding, and indiscriminate clearing of the hills (Most all "fuel" used by peasants comes from the forests).

At present, the amount of irrigated land is 54,000 hectares. However, recent studies based on topographical conditions, quality of soil, and climatic characteristics of the country, estimate a potential 400,000 hectares of irrigable land.

Despite the importance of the agricultural sector to the total economy (32 percent of GNP), most of the farmers and peasants use techniques and practices that usually diminish the fertility of the soil. Small farmers do not practice soil conservation or prevent erosion. In general, soils are low in phosphorus, although high in potash, but commercial fertilizers are seldom used. Human and animal manure is more common. Pesticides are used almost exclusively on larger farms.

There is little mechanization throughout the country although highly sophisticated methods of production can be found in the case of exported products. Handtools are used by almost all farmers. More than 70 percent of the farmers use a machete to dig up the soil and a stick to sow the seed. In 1975 there were 3,669 tractors; 364 sowing machines; 1,677 harrows; 578 cultivating machines and 28,527 plows.

In terms of agricultural production, the major crops are bananas, sugar cane, coffee, corn, beans, rice, sorghum, Agrican palm, and

tobacco leaves. The main livestock sub-products are beef, pork, poultry, eggs, and honey.

The population census of 1974 revealed that 69 percent of the Honduran population lived in rural areas and the agricultural labor force was 64 percent of the total labor force of the country. More than 50 percent of the rural population was illiterate. The unemployment in rural areas was around 37 percent (including disguised unemployment). The income per capita for the agricultural sector was \$233 per capita in 1978, twenty-three dollars below the total national average.

In 1974, 64 percent of the small farms (those up to 5 hectares) occupied 10 percent of the land, while 1.8 percent of the large farms (200 hectares or more) occupied 38.6 percent of the cultivated area. By that time, there were a total of 195,341 farms which occupied 2,626,859 hectares.

As a policy of development and a political step to counteract the pressure by peasants for land redistribution, the government has emphasized since 1975 through a new land reform law, an active land redistribution program to alleviate the rural unemployment and increase the level of income of the population. Up to October of 1978, 201,078 hectares had been distributed to 33,203 peasant families. The National Development Plan 1974-1978, anticipated the distribution of 600,000 hectares to 120,000 families. However, the goal was not achieved because farmers' associations and other affected farmers persuaded the government to change the policy orientation of the program. It should be noted that some parcels of land given to peasants are not suitable for the kind of crops they sow. Also, the quality and quantity of public support have not been equitable for all the units.

Peasant organizations have played an important role in the acceleration of measures to change the economic and social structure in the agricultural sector. In 1974, there were in Honduras the following peasant organizations:

1. The National Association of Peasants, with 85,000 families as members.
2. The National Union of Peasants, with 22,000 family members.
3. The Federation of Cooperatives of the Land Reform, with 3,000 family members.

In 1978, the Honduran Institute for Agricultural Marketing (IHMA) was created to promote a marketing system for basic grains and other products, price stabilization, and an orderly market for the products. Actions to increase the services of research and extension have been done, essentially through the supply of inputs, including improved seeds.

Within the agricultural sector almost all investment is made towards improving commercially produced export commodities (bananas, coffee, cotton, sugar). Very little capital is invested in agriculture oriented to the domestic market.

In 1974, about 10 percent of the farmers obtained institutional credit, 2.3 percent from publicly financed institutions and 7.7 percent from private institutions. The 91 percent of the loans that went to small farmers accounted for only 19 percent of the dollar value of all agricultural loans. In 1978, there were \$106 million in new loans directed to agriculture, i.e. \$49 per person.

AGRICULTURAL FINANCIAL AND DEVELOPMENTAL INSTITUTIONS IN HONDURAS

In financing the agricultural sector of developing countries, it is necessary to consider the importance of external (international) and internal (domestic) sources. Internal sources include public, mixed, and private organizations. Most of the external financing is channeled through the public sector of LDCs. Sometimes financing is accompanied by aid, namely when the transaction is arranged government to government. However, aid has declined over time since transactions are now primarily negotiated between LDC's and the international financing agencies.

External Financing

Because of the general low savings and capital formation of the country, external finance and foreign investment have played an important role in financing the Honduran agricultural sector. It is not an easy task to disaggregate exactly the external financing received by the government for the agricultural sector because information is disperse. Also, some loans directed to other sectors, for example communications and transport, benefit agriculture as well.

Aid is received mainly by the government. The U.S. provides some help through the AID programs including Public Law 480. U.S. food aid alone was \$10.2 million in 1973. Honduras receives help also from the FAO (World Food Program), the European Economic Community, the West German government, and other friendly governments. The Honduran government also receives technical assistance through the same programs. In addition, the International Development Agency of the World Bank (IDA)

grants "soft" loans and other types of aid.

External financing funds for agriculture received by the Honduran public agencies were directed mainly to the National Development Bank in the five year period 1974-1978. The BANAFOM received \$58.3 million up to October 1978, namely from the Interamerican Development Bank and U.S. AID. The Central American Bank for Economic Integration (CABEI), however, is now participating more in the external financing of the Honduran agricultural sector. The World Bank Group has granted loans to be managed by the Central Bank and directed to agricultural development. Most of the international credit is for long-term purposes. Funds, however, are tied to specific conditions which preclude flexibility in their use.

The international financing channeled through the private sector takes two routes: The domestic private banking system, and the direct private investment of multinational corporations. There was no information to identify the external private financing done through the private banking system. In the case of private direct investment, the most important has been through the banana companies, which in 1970 accounted for 27.7 percent of the total private investment of the agricultural sector. Such investment has declined over time and in 1975 was 5 percent. In 1978, the external private direct investment was estimated at \$13 million.

Internal Financing

The internal institutional financing of the agricultural sector has increased over time in comparison with other sectors. In 1950, it was only 11 percent of the total debt; in 1960, 18 percent; in 1978,

29 percent; and in June 1979, 27 percent. In the case of domestic financing institutions, this report deals with the called "formal" institutions. No information is available about the participation of "informal" lenders (merchants, dealers, etc.) to the agricultural sector.

Formal Lending Institutions of the General Government

The Central Bank of Honduras

Central banks are usually government owned and play a very important role in contributing to economic development. They are in charge of the monetary policy of the governments. According to Tamagna,³ three points of view may be considered: first, the influence that central banks exert on the formation and availability of savings by their policies and measures to maintain monetary stability and confidence in the national monetary currency; second, the effect of their regulation of credit and supervision of financial institutions in the distribution of funds by sectors, activities, and transactions; third, the reaction induced by their policies in the existing financial organization the bringing forth new types of institutions and practices outside their control, and their own attitude in regard to the evolution of the market.

The Central Bank of Honduras was created by the Central Bank of Honduras Law in February of 1950. According to Article 2 of the Law, its purpose is: "to promote the most favorable monetary, credit, and

³Tamagna, Frank. Central Banking in Latin America. Centro de Estudios Latinoamericanos (CEMLA). Mexico City, Mexico, 1965, p. 196

⁴HONDURAS, Ley del Banco Central de Honduras, Talleres Tipo-Litograficos Ariston, Tegucigalpa, Honduras, 1967, p. 7

exchange conditions for the development of the national economy."⁴

The Central Bank's initial capital was \$250,000. It is wholly owned by the Government and has branches in three cities of the country. The Bank has the exclusive right to issue currency. The unit of currency is the lempira (two lempiras = one dollar) and comes in denominations of 1, 2, 5, 10, 20, 50, and 100 lempiras. Fractions of lempiras (cents) are coins of 1, 2, 5, 10, 20, 50, and 100 cents.

In 1978, the Board of Directors consisted of the President of the Bank who directs the meetings, the Secretary of Finance and Public Credit, the Secretary of Economy, a representative of the National Development Bank, a representative of the private banks, and a representative of other private enterprise associations.

The original authority and primary instruments of the Central Bank rest upon its power to grant rediscounts on loans made by commercial banks; discounts, i.e. loans to commercial banks; and its authority to purchase and sell notes or other transferable papers of credit resulting from operations linked directly to production or manufacture of agricultural products and industrial goods as well as other economic activities. The Central Bank grants advances with warranty on the documents mentioned above. Rediscounts, advances on notes and credit lines are used for selective purposes with the aim of stimulating and promoting productive activities.

Related to its securities operations, the Law defines the securities eligible for portfolio investment by the Central Bank. Included are those issued and guaranteed by the Government, mortgage bonds, notes, and direct obligations of the private banks.

The Central Bank also supervises all banking operations in Honduras through its Superintendency of Banks. The Central Bank sets maximum interest rates and commissions plus ceilings on the amount, composition, and the rates of growth of the loan and investment portfolios. In 1978, the maximum savings interest rates were for commercial banks, 7 percent; for savings and loans associations, 8 percent; and for bonds of fixed yield, 8.5 percent.

Reserve requirements to protect deposits, loans, and investments have to be held in cash or deposited at the Central Bank. The deposits can be used for check clearing operations. In the case of savings and time deposits, part of the reserve requirements can be held in securities issued by the government. Depending on the economic conditions of the country, reserve requirements may be changed. Reserves for commercial banks equal 30 percent of the deposits, 23 percent held in cash and 7 percent in cash or securities. Reserve requirements in the case of Savings and Loans Associations are 15 percent.

Thus, through the determination of the level and composition of reserves and the application of direct controls, the Central Bank aims to redistribute the liquid and earning assets of the financial institutions and to coordinate the regulation of credit according to concepts of productivity and economic policy.

According to its Law, the Central Bank is the banker, fiscal agent, and financial-economic advisor of the general government. It is the intermediary in international financial relations through its ordinary foreign operations, and through participation in conferences and negotiations. It represents Honduras before the International Monetary Fund.

The Central Bank acts in coordination with agencies of the central government, as well as with autonomous and semi-autonomous agencies in matters dealing with budget, fiscal policy, credit operations, and monetary policy. Recently, the Central Bank has become more involved in activities related to economic and social planning.

The Central Bank promotes agriculture through advances and rediscounts granted to the commercial and development banks, and often including concessionary interest rates. In 1977, \$35.6 million (57 percent of the total) in loans and rediscounts were directed to the agricultural sector, namely to cattle raising development, coffee plantations, and the development of basic grain crops.

The Central Bank started an agricultural credit program. The first stage, a Cattle Raising Development Program, was initiated in 1971 at a cost of \$5.2 million, and financed 78 farms (\$66,667 average per farm). The second stage started in 1974, and financed 325 livestock farms plus several local government-owned slaughter houses. The third stage of the program (1977) provided financial resources for additional cattle raising development, for the production of some crops, for small agri-businesses, and for leasing machinery.

Funds for stage three of the Central Bank's program were granted by IDA. Such funds, however, were to be allocated to agricultural developmental institutions involved in providing technical services to farmers. Institutions supported by Central Bank loans were the National Agrarian Institute, the Secretary of National Resources, and the Pan-american Agricultural School, as well as the Honduran Banana Corporation and the National Development Bank.

The Development Banks

In 1979, there were in Honduras three public financial institutions considered development banks: the National Development Bank, the Autonomous Municipal Bank, and the National Investment Corporation.

The National Development Bank. The National Development Bank disappeared on March 31, 1980, yielding to the creation of a new financial institution called the National Bank for Agricultural Development. Nevertheless, the role of the National Development Bank is presented because its participation in the financing of the Honduran agricultural sector cannot be ignored.

The National Development Bank (BANAFOM) was created by Decree No. 71 on February 16, 1950. Before the establishment of this bank, there was practically no institutional credit in Honduras. Article No. 2 of the Decree stated the purpose of the Bank to be "to contribute to the development of the country in order to raise the standard of living of the people."⁵ Its initial capital was \$730,000.

In 1978, the Board of Directors of BANAFOM consisted of the President of the Bank who directed the meetings; the Secretary of Finance; the Secretary of Natural Resources; the Secretary of Communications, Public Works and Transport; the President of the Central Bank; a representative of the private banks; and five representatives of farmers and peasants associations as well as industrial and commerce associations.

⁵HONDURAS, Ley del Banco Nacional de Fomento, Decreto No. 71, Febrero 16, 1950, Talleres Tipo-Litograficos Ariston, Tegucigalpa, Honduras, 1967, p. 1

The BANAFOM was a multi-purpose institution with a wide range of activities which included banking, investments in industrial firms (in some cases initiated and temporarily owned by the bank), research, direction of developmental projects, marketing of inputs and commodities, coordination of the government's policy for economic development, and bargaining of foreign loans for developmental projects.

The Bank was divided into two operating departments: Credit and Operations; and Development. The former performed typical banking functions with the aim of meeting credit needs in areas not covered or weakly covered by the private banking system. The bank could make short (up to 18 months), medium (up to 4 years or 7 years in special cases), and long-term loans (up to 25 years). The Law determined the kind of collateral that could be accepted by the bank. Interest rates applied by the bank were lower than the ceilings approved by the Central Bank in the cases of small producers or cooperatives since all or part of the administration costs of the loan to the borrower were waived. The BANAFOM, could also, with the authorization of the Central Bank, issue mortgage certificates and bonds.

The Development Department was concerned with a variety of developmental activities, including the building and operation of silos and warehouses; the provision of facilities for coffee processing; the maintenance of price support for grains (since 1954); and the distribution of seeds, fertilizers and agricultural implements. For several years, it advised and encouraged the cooperative movement in the country and operated a program of supervised credit to promote such. Its technical division could advise farmers and industrialists and often conducted

studies on specific developmental project possibilities for the country. The bank created several successful industrial firms which were sold later to private individuals.

One of the legal handicaps was the prohibition of competing with private banks for deposits. No new branches could be established where private banks already existed. Thus, the bank found itself in a position that it should lend "easy" money, but it could not receive enough resources. Financial resources of the bank consisted mainly of contributions from the central government, advances from the Central Bank, proceeds from the sale of bonds, deposits, profits from the bank's operations, earnings from participation stock shares in 13 mainly industrial firms, and, lately, foreign loans.

The insufficient liquidity of the Bank provoked an accentuated dependence on foreign sources of money. In 1976, 32 percent of the loans granted by the Bank were based on external finance, which, besides increasing the public debt, has less allocation flexibility than the internally financed loans. From 1974 to 1978, 26 percent of the financial resources of the Bank were external, namely from the Inter-American Development Bank, the World Bank IDA, the U.S. Agency for International Development, and the Central American Bank for Economic Integration.

From 1976 to 1978, about 80 percent of the credit granted by the BANAFOM was directed to agriculture. In 1976, 72 percent of the total credit (\$65.5 million) was short-term but 79 percent of the loans were loans below \$1,250 each. These small loans accounted for only 14 percent of the total dollar value of the 16,500 total loans made. As of

September 30, 1979, there had been 42,237 loans granted in the preceding 9 months, 88 percent of them less than \$1,250. In March 1978, the loans outstanding for the associated peasants groups were \$13.4 million of which 70 percent was distributed to cooperatives, 16 percent to settlements, and 14 percent to peasants associations.

Loan default in 1977 was 36 percent of the credit outstanding, 27 percent on the part of private independent producers and 9 percent corresponding to beneficiaries of the land reform. Some reasons given for the high loan default ratio were natural disasters, bad crops because of weather, lack of technical assistance to the borrowers, weakness of administrative control, and, mainly, the lack of an effective legal system to recover the loan payments when the borrowers were unwilling to pay.

The transformation of the BANAFOM into the National Bank for Agricultural Development (BANADESA) had been planned since 1964. Since 1954, with the creation of the Cooperative Development Office, the BANAFOM was losing its multifaceted aspect and on March 31, 1980, had only two non-banking section activities: a provider of consumer goods called BANASUPRO, dealing with price stabilization of food and other products at the retail level; and its Sales Section, in charge of supplying agricultural inputs to farmers.

Article No. 2 of the National Bank for Agricultural Development Law, sets the Bank's main objective to be "to canalize financial resources for the development of production and productivity of agriculture, livestock industry, fishery, aviculture, apiculture, forestry,

⁶HONDURAS, Ley del Banco Nacional de Desarrollo Agrícola (BANADESA), Decreto Numero 903, La Gaceta No. 23,067, 28 de Marzo de 1980, p. 1

and other activities related to the primary processing of that production including its marketing."⁶

The authorized capital of the Bank was \$37.5 million, wholly contributed by the government, including the remaining assets of the former BANAFOM. Its Board of Directors is in charge of the direction of the Bank. The Board is composed of nine members: the Minister of Natural Resources who presides at the meetings, the Minister of Finance; the Minister of Economy; the Executive Secretary of the Superior Council of Economic Planification, the President of the Central Bank, the Executive Director of the National Agrarian Institute, the Executive President of BANADESA, a representative of the farmer associations, and a representative of the peasants organizations. The administration of the bank is in the hands of an Executive Committee consisting of an Executive President, an Executive Vice-President, and the other officials appointed by the Board of Directors.

The Law establishes two commissions, The Credit Commission, and The Fideicommissa (Trustee) Commission. The Credit Commission carries out the lending operations of the Bank. The Trustee Commission manages the credit assistance that the government, directly or through its institutions, grants to the agricultural activity when risks associated with the activity are not the usual for banking operations. This latter Commission will allocate credit according to the resources in Fideicommissum, policy established, economic conditions existing, and requirements met by borrowers. When beneficiaries of Fideicommissa funds no longer qualify for such funds, they become subject to the regular operations of the Bank.

The BANADESA, according to the Law, can obtain loans, advances, and rediscounts from the Central Bank, with concessionary conditions. Money obtained is used to grant loans for either specific or integrated projects involving agricultural development. The Law also sets the requirements to be met by the borrower, the kind and quality of guarantees or collateral, and limits on the feasibility and rentability of the projects. The Bank will coordinate activities with the National Agrarian Institute, the Secretary of Natural Resources, and other public institutions to assist borrowers, taking into consideration the ecological conditions as well as the priorities of economic and social policy of the country. The Bank also will promote development with credit to cooperatives and similar associations. It exercises a kind of supervised credit upon the use and destination of the loans granted.

Short-term loans have maturities up to 18 months, medium-term loans up to seven years, and long-term loans up to fifteen years. Whenever necessary, the Bank can grant a grace period for the repayments. A loan to an agricultural cooperative or association cannot go beyond 10 percent of the capital and reserves of the Bank. In any other case, the ceiling is 5 percent. The BANADESA, however, can participate in joint lending operations with other governmental or banking institutions (private not explicitly excluded) directed toward the objective of the law.

In the case of fiduciary operations, considering the financial needs of the agricultural sector and congruency with the National Development Plan, the Trustee Commission may set up credit for the following purposes:

1. To grant credit to beneficiaries of the land reform, i.e. those protected by the Land Reform Law.
2. To promote specific programs of agricultural development
3. To grant credit to individual farmers who individually or in a group are not able to obtain regular banking credit.
4. Other Fideicommissa activities established by other governmental or private institutions, and conforming the objective of the Law.

All activities of the Fideicommissa Commission are carried out by contracts signed between BANADESA and the central government, or other public and private institutions. Such contracts contain the regulations that need to be met whenever Fideicommissa funds are used.

Loans and investments made with Fideicommissa resources may have different conditions, guarantees, and terms than other loans granted by BANADESA. Fideicommissa cash resources are exempted from reserve requirements set by the Central Bank. Accounting and auditing of Fideicommissa funds are separated from the other operations of BANADESA.

There are several differences between the Law of the BANADESA and the Law of the BANAFOM, but those considered the most important ones are:

1. BANADESA is a single-purpose institution, i.e. to serve agriculture.
2. The Board of Directors are the same in number and people, with the exception of the institutional representative.
3. In BANADESA, the role of the Minister of Natural Resources has increased.
4. The BANADESA receives preferential treatment in obtaining loans, advances, and rediscounts.

5. The BANADESA can join in lending operations with other governmental or banking institutions.
6. The BANADESA can grant grace repayment periods on loans for special projects.
7. Taking into consideration the size of the loan for a single borrower (individual or group), the BANADESA will give special treatment to agricultural cooperatives and associations.
8. The conditions related to mortgages or long-term loans are more strict with BANADESA, which keeps rights on the asset for 30 years, but expects the loan to be repaid in a maximum term of 15 years.
9. The fiduciary operations of BANADESA are probably the most important difference between the BANADESA and the BANAFOM. Eventually that modality can give to BANADESA a centralization of the diffuse lending activities that prevail at the present in the agricultural sector. It also has relative independence from the Central Bank toward the administration of the Fideicommissa funds, which can result in a greater flexibility of the BANADESA lending activities. Nevertheless, two situations could preclude the expected benefit of the Fideicommissa fund: first, the autarchic attitude of the heads of the different institutions; and second, the institutional atomization resulting with the creation of new financial institutions.

The Autonomous Municipal Bank (BANMA). Created in November 1961, the Autonomous Municipal Bank was established to proportion credit and technical assistance to the municipalities and to contribute to their economic and social development. Because most of the Honduran municipalities are located in rural areas, the Bank was supposed to deal with rural development. According to its Law, the Bank keeps the deposits,

securities, and bonds belonging to the municipalities. The Bank can be the warrantee of the bonds and obligations issued by the municipalities. It is also their economic and financial advisor.

The Bank can promote savings and coordinate the financial and economic activities of the municipalities according to the policies of the central government. It promotes private and mixed public-private firms engaged in public services, exploitation of natural resources, and the activities derived from these. The Bank tries to involve several municipalities in joint projects. The most important municipality of the country was responsible for 56 percent of the outstanding debt in 1977.

The initial capital of the Bank was \$500,000, totally contributed by the government. The Bank can issue preferred and common stock. In issuing bonds, the Bank must have the authorization of the Central Bank. It can establish and close branches and auxiliary offices in rural areas. As of June 30, 1979, the Bank had no branches or auxiliary offices. The main and sole office of the Bank is located in the capital.

The objective of the Bank in improving municipal development has been limited. On June 30, 1979, financial ratios were:

Loans to total assets:	50 percent
Demand deposits to total assets:	10 percent
Time deposits to total assets:	3 percent

In a static evaluation of the above ratios, the outstanding feature is the low level of deposits attracted by the Bank. Its failure in drawing deposits has precluded its capacity to lend. This can be based on the poor generation of revenues on the part of the municipalities, and, therefore, their capacity to borrow.

Most of the municipalities are subject to subsidies from the central government. In addition, the municipalities are targets of partisan activities which provoke a negative attitude by the taxpayers. The municipalities have also confronted problems of funds malversation. Thus, as long as the income of taxpayers continues being low, and political and administrative problems of municipalities remain, their capacity to save and obtain loans will be almost null, and so the activity of the Autonomous Municipal Bank.

The National Investment Corporation (CONADI). The National Investment Corporation was created on July 9, 1974, with the objective of establishing a market for capital and securities, thus increasing the amount of governmental and private national savings channeled into productive activities. The CONADI is to promote new industrial corporations and to help expand and consolidate the ones existing.

The CONADI can only participate in investment projects of at least \$375,000. It can make medium and long-term loans and also guarantee credit to industrial firms. The support of CONADI to agricultural-oriented manufacturing firms has represented 48 percent of its total contribution to the economy of the country. Loans directed to the agricultural production sector have been scarce.

The importance of the CONADI to the agricultural sector is related to the role it can play financing vertically integrated industries using agricultural raw materials. In such case, the joint participation of the CONADI and the BANADESA can encourage, and develop integrated agri-industrial projects.

The Honduran Forestry Development Corporation (COHDEFOR)

This semi-autonomous corporation was created in January 1974. According to its Law, the COHDEFOR's objectives are to help develop an optimum exploitation of the Honduran forestry resources; to assure the protection, improvement, conservation and increment of those resources; to generate funds to finance public programs; and to accelerate the economic and social development of the country. Forestry is currently the most extensive natural resource of Honduras.

The COHDEFOR is in charge of all public and private forestry areas. Its aim is the rational utilization of forestry products and the industrialization and marketing of sub-products. Such activities may be done by the COHDEFOR directly or through firms of mixed capital, private firms wholly owned by Hondurans, peasant associations, or cooperatives. The COHDEFOR has authorization to grant or guarantee credit to persons involved in the forestry business. It can obtain internal or external loans, and can also issue bonds. The initial patrimony of COHDEFOR was \$1.5 million, contributed by the government.

The COHDEFOR created the Social Forestry System, composed of associations of peasants, cooperatives and other kinds of associations, to protect the forest and develop its regeneration by voiding fires, overshepherding, illegal felling, and rotatory agriculture. The COHDEFOR determines how the peasants participate in the benefits derived from the forestry exploitation. Though forestry cooperative and peasant associations are promoted by the COHDEFOR, their relationships with COHDEFOR are contractual. In 1977, there were 147 resin cooperatives involving about 5,000 workers and benefiting about 35,000 people.

Up to 1978, the COHDEFOR had granted \$34.4 million in loans. Each loan averaged \$45,000. More than 90 percent of those loans helped meet working capital needs. Loan default is almost null since COHDEFOR is the only channel for international trade of lumber.

The Honduran Banana Corporation (COHBANA)

The objective of COHBANA is to promote the most favorable conditions for the development of the banana industry, and to obtain and increased national participation in the production, international transport and marketing of bananas. The COHBANA can buy, transport, distribute and market bananas, banana derivatives, and inputs and other materials used by the banana industry. Its patrons include the beneficiaries of the Land Reform Law, peasant association enterprises, cooperatives, and other Honduran producers involved in the banana activity. The Corporation can guarantee loans granted to firms linked to the banana activity.

The COHBANA was created in October 1975, and was expected to receive \$5 million from the government over a four-year period. In 1976, the COHBANA received an external loan from an international group of banks for \$10 million. It also received \$1.9 million from the IDA, 32 percent of that as a grant. Up to December 31, 1976, COHBANA had lent \$3.8 million, 59 percent of it to a peasant associative enterprise.

With the creation of COHBANA and its credit activities, the National Development Bank was no longer permitted to use its funds to grant direct loans to the banana industry. The COHBANA, however, created in September 1976, a Fideicomisum fund of \$2.5 million to be managed by the National Development Bank to grant loans to banana firms.

The COHBANA assists Honduran banana producers in technical, financial and marketing areas. In the technological field, the COHBANA has worked in the development of banana varieties more resistant to floods and strong winds.

The Honduran Coffee Institute (IHCAFE)

In 1970, there were more than 50,000 producers of coffee. Coffee is one of the crops which receives special treatment through rediscounts from the Central Bank, but at the same time provides revenues through export taxes. From January 1 to June 20, 1979, coffee exports accounted for \$169.3 million.

Created in December 1970, from the assets and personnel of the Coffee Office of the National Development Bank, the Honduran Coffee Institute provides technical assistance to producers, manufacturers, and exporters of coffee. The IHCAFE, an autonomous institution, may develop and promote the organization of cooperatives and local or national associations linked to the coffee activity. It can receive loans from national or international institutions to accomplish its objectives. The Institute can sell or supply inputs to the coffee industry, i.e. seeds, machinery, fertilizers, fungicides, herbicides, plants, etc. by itself or by hiring such services. More than 80 percent of the plantules are provided by the IHCAFE. The IHCAFE is also involved in the building and maintenance of feeder roads linking the production centers with warehouses. Warehouse receipts are used as guarantees to obtain loan advances. From January to June of 1979, that channel meant \$18.1 million to benefit 2,400 coffee producers.

The direct credit assistance of the IHCAFE to the coffee producers is through providing inputs. Another assistance is to grant guarantees on the loans that coffee producers get from the BANAFOM (BANADESA) or commercial banks. The IHCAFE moreover, guarantees minimum prices to the producers and sets maximum prices to the processors.

The National Agrarian Institute (INA)

The INA was created through the Land Reform Law of 1962, as an autonomous agency responsible for carrying out land reform. It is now in charge of the application of the last Land Reform Law enacted in December of 1974. The objective of land reform is to transform the land tenure system, guarantee social justice in the countryside, and increase the productivity of the agricultural sector.

Land reform has been considered by the government as an essential part of its strategy of development. Other economic and social measures are to be coordinated with it, namely those related to education, health, housing, employment, transportation, marketing, and credit assistance. The Law aims to put together in one person, or group, the positions of owner, entrepreneur, and worker. Whenever necessary, the structure of the institutions dealing with the land reform program will be changed to conform to conditions specified in the Law.

INA expropriates land from larger farmers for distribution to small farmers. Expropriations are based on the appraised value of the land and its improvements. One appraisal criterion is the average of the owner's declared value of the land for purposes of taxation. Another criterion is the value of the land of adjacent farms. No expropriations are made from farms that are operating at a high efficiency level and

are growing bananas, plantain, sugar cane, African palm, coffee beans, pineapples, citric fruits or tobacco on extensive land areas.

Compensation for expropriations is financed with bonds whose maturities are 15, 20, and 25 years. In no case, will the cash compensation exceed \$10,000. The bonds can be used by farmers whose land was expropriated as collateral, to finance up to 50 percent of their investment in a firm which the government considers strategic for national development. Such financing on the bonds can be granted by the CONADI, the BANADESA, or the COHDEFOR.

Beneficiaries of the land reform are farmers with less than five hectares or landless peasants who agree to work the land to belong to a cooperative or associative enterprise whenever the INA considers it necessary, and to obey the technical and administrative dispositions of the INA. Qualified beneficiaries receive plots of land that had previously been expropriated. The size of the plot depends on the fertility of the land and the need of the farmer. The plots are paid for by the beneficiary without down payment for a term up to 20 years, and with the condition of not dividing the land. Each beneficiary will have a grace period of two years before repayment starts. The value of the plot equals the expropriation costs plus financing costs. The beneficiaries receive from the beginning a provisional title to the land which can be used to secure loans from government credit agencies. The definitive title is granted when the beneficiary completes the payments covering the value of the plot. Until then, the INA is the owner of the land.

The INA can organize and develop peasant cooperatives for the execution of land reform programs. The peasants cooperatives must pay the value of the land and follow the regulations of the Cooperatives Associations Law.

Also, the INA can organize and develop less formal organizations for people who will work the land in a communal form and whose members will obtain a proportional part of the benefits according to the groups' effort. These are called Associative Peasant Enterprises. An associative enterprise must have at least five members. Member liability is limited to their contributions. The INA has the power to audit the operations of the associative enterprises. The INA determines the area to grant to each associative enterprise, taking into account the number of members. Each member has the right to build a house and to have a family orchard.

According to the Land Reform Law, the beneficiaries can obtain preferential technical and credit assistance from the government. The credit will be granted according to an investment plan; collateral will be crops and products in the case of short-term loans, and the assets acquired by the enterprise in the case of medium-term loans. In both cases, the loans may be guaranteed by the INA.

The National Housing Institute is entitled to participate in housing development for cooperatives and associative enterprises and will give priority to the building of rural houses. The governmental credit institutions, namely the BANADESA and the CONADI may establish special annual credit plans for those manufacturing industries using basically raw materials produced by beneficiaries of the land reform.

According to the evaluation fo the National Agricultural Development Plan,⁷ from 1973 to 1978, 201,078 hectares were distributed to 33,203 families. From the total area distributed, 24 percent was developed by colonization schemes where, even though there was considerable investment by the government, there still exists serious constraints related to the role of the external institutions and the general infrastructure.

In 1978, there were 523 loan requests. Production loans amounting to \$12.9 million were granted to 424 peasant groups which benefited 10,634 families. Sixty-three percent of those loans were financed with U.S. AID and IDA funds. The INA also granted \$1.4 million in emergency loans and guaranteed \$7.2 million obtained by peasants from BANAFOM. Some of the loans granted by the INA are given in kind. INA also provided \$245,800 in credit to the marketing system.

Some adverse aspects of consideration related to the land reform are: some lands are not adequate for the type of crop planted, taking into consideration climate and soil conditions; in other cases the administration of the farms has been deficient. Droughts and floods have affected production. Besides, some distributed land was predominantly marginal with a slope of more than 15 percent. A study done in 1975 showed that 56 percent of the existent groups were located from 15 to 40 Km. away from a highway and 30 percent of the feeder roads were not all-weather roade. One important point is that the support of the external institutions has been uneven, because, while some groups have

⁷Secretaria Tecnica del Consejo Superior de Planificacion Economica, National Agricultural Plan 1979-1983. Tegucigalpa, Honduras, p. 7

received too much support, others have received almost nothing.

The INA uses two primary sectors of farmers to carry out the land reform. The first is the Rural Concentrated Development Sector, where investments, resources, and basic services are provided with a regional basis. The peasant groups of this sector are dedicated to the production of bananas, perennial crops, (mainly African palm and citric fruits) and cattle to a lesser degree.

The groups dedicated to banana production have shown high productivity indexes and incomes superior to the rural average. They have fulfilled their financial obligations under the Land Reform Law. The groups sowing perennial crops have received important governmental support, however, because of the long-term maturity in the case of African palm, and problems of external marketing in the case of citric fruits, their success is not significant so far.

The second classification is the Consolidation Sector, consisting of disperse settlements which receive support for the improvement and diversification of their crops. A great number of these groups are dedicated to the exploitation of basic grains, sesame, cotton and vegetables.

The INA practices "induced migration", i.e. moving peasant families to settlements and colonization projects. In 1978, the INA moved 751 families or 5,600 persons strengthening 20 cooperatives and settlements. The INA also participates in aspects related to extension and research directed specifically toward the beneficiaries of the land reform. The INA coordinates some food programs with international support provided by West Germany, the World Food Program of the FAO, and the European Economic Community.

Developmental Institutions of the General Government

The Secretary of Natural Resources

Though not involved directly in agricultural credit, the Secretary of Natural Resources is the highest governmental agency helping provide most of the services directed to the agricultural sector. Services include agricultural research and extension, supply of improved seeds, agricultural mechanization equipment and personnel, soil conservation, and control of plant and animal diseases. Also, the Secretary manages the aspects related to fishing, wildlife, and ecology. Moreover, under the Secretary functions a Department of Hydrology and Climatology.

For the 1980 national budget, the Secretary of Natural Resources had funds equivalent to 16 percent of the general expenditures. In this respect, it is the third Secretary in level of importance after education and public works.

The Honduran Institute for Agricultural Marketing (IHMA)

The Honduran Institute for Agricultural Marketing was created an an autonomous institution in February 1978. The objective of the Institute is to promote the improvement of marketing systems for basic grains. IHMA practices price stabilization through the direct intervention in the internal and external trade of the products in order to guarantee a stable and orderly market to the producers and an adequate supply to the consumer. The goal of the IHMA for 1979 was to control 20 percent of the marketable production of basic grains, i.e. 66,050 metric tons. The IHMA could in the future, market commodities other than basic grains.

The IHMA may guarantee prices to the producers, buy basic grains, store the grain and issue deposit certificates, or guarantee notes. The IHMA had in 1978, 44.1 thousand metric tons of storage capacity; one of its objectives is to increase such capacity, namely through the building of rural warehouses close to the farms in order to avoid storage wastepost-harvest.

The IHMA started with the assets and liabilities of the former Division for Conservation and Cereals of the BANAFOM. The IHMA received a contribution of \$20 million from the government. For the execution of a project on rural silos, the IHMA received a loan of \$9 million from the Central American Bank for Economic Integration (CABEI). The FAO is also giving assistance in the building of those silos. The European Economic Community has donated cereal grains to the Institute which have since been marketed to provide program funds. The IHMA is receiving cooperation from the Canadian Government through the Canadian International Development Agency (CIDA) to help train personnel and to provide scholarships. The IHMA also controls the international trade of basic grains, thereby obligating traders to register with the Institute and obtain the Institute's permission for trade.

The General Office of Cooperative Development (DIFOCOOP)

Created in March 1954, the General Office of Cooperative Development is an autonomous agency under the Secretary of Economy. DIFOCOOP had the objective of starting, promoting, directing and coordinating the formation and development of cooperatives. It serves as an intermediary between cooperatives, associations, and the BANADESA to obtain regular or special loans as well as any other economic help. It gives

technical advice to the cooperatives and also inspects and regulates cooperative operations.

Cooperatives in Honduras can be production, consumption, farm, savings and loans, transport, housing, school, or multi-purpose cooperatives. Formation of a cooperative requires at least 12 members, all of them 18 years old or older unless special exception is granted. Operations and membership must be without partisan or religious preference. Agreements cannot be made to permit non-members to participate directly or indirectly in the benefits of cooperative membership. Assets are financed by the contributions of the member's savings resulting from operations, donations, and credit. A cooperative has to designate 10 percent of its annual surplus for the formation of a reserve fund as well as at least 5 percent to an educational fund. No member can have more than 5 percent of the patronage funds of the cooperative. DIFOCOOP can participate in any cooperative with 20 percent of the patronage of it.

Cooperatives are exempt from using legal stamped paper in their normal operations even though such papers may be necessary in non-coops. Cooperatives are not subject to taxes on imports of those raw materials or equipment needed in their operations, whenever such products are not produced in the country. Cooperatives do not pay direct taxes on income or fixed assets.

The Law for Cooperatives establishes conditions under which cooperatives can be dissolved and designates how the obligations of the cooperative will be distributed. Cooperatives may merge or form unions and federations. A cooperative cannot belong to two federations.

The National Housing Institute (INVA)

INVA is an autonomous institution created in January 1957. Its objectives are to provide adequate dwellings for low income families, to grant credit for the formation of housing cooperatives, and to specify the minimum building code requirements of urban and rural houses.

The INVA has a Division of Savings and Loans which is considered by the Central Bank as a financial institution. The Division, however, is not important in terms of resources to rural area. In June, 1979, its assets were \$0.7 million and the loans granted by it had been used for the improvement of urban homes.

In February 1975, the Honduran government negotiated with the U.S. government a loan for \$1 million that, with additional national funds, was used to set up a program of rural housing directed at diminishing the rural-urban migration and incorporating peasants into the production process. Up to 1977, 966 homes were built, benefiting 22 peasant groups. The cost per home was \$513 on one site, and \$551 on another. The homes were self-built. Home ownership required a down payment of \$10 and a semiannual payment of \$35 in January and July since two crops per year are obtained in the zones where the houses were built. The price of each home for the peasants was \$450; the INVA subsidized the difference.

In 1977, the INVA signed a contract for a rural colonization project to continue building homes in the countryside. Housing problems in rural areas are enormous considering that in 1974, 81 percent of the "houses" had no tile floors. Only 24 percent of the total population had access to potable water and 14 percent to sewerage services.

Even though there has been some assistance for rural housing, the projects of the INVA have been mainly developed in urban areas. The same reasons for granting credit for agricultural production can be applied to the case of credit for housing in rural areas. INVA's own Law provides for improving the standard of living of the poor. The last Land Reform Law also brought more responsibility to the Institute in terms of facilitating adequate dwelling for peasant beneficiaries of the Land Reform Act. However, five years after the enactment of the Land Reform Law, very little has been done in terms of rural housing. A combination of efforts among INVA, BANMA, the municipalities, and the peasants themselves could overcome the situation.

The National Enterprise of Electric Power (ENEE)

The ENEE was created in February 1957, to promote the development of electrification of the country. ENEE has focused its attention on providing electricity to urban areas by subsidizing, through lower rates, the high consumption of private firms, namely mining and manufacturing enterprises. Yet, for 1974, it was estimated that only 6 percent of the Honduran population had access to electricity. In 1978, there were 118,076 electricity subscribers (18 percent of the population) who consumed 719 GWH, 42 percent generated from thermoelectric sources.

With \$187 million in assets in 1978, primarily financed with external resources from the Inter-American Development Bank (IDB), IDA, and CABEI, ENEE is now involved in the building of a big hydroelectric project which is expected to cover the total electricity demand of the country for those who can pay. Flood control and irrigation are additional benefits of the project. For 1979, the ENEE had a rural pro-

ject to benefit 55,207 persons in 20 municipalities. It is expected it will continue widening its coverage of services.

Lending Institutions of the Private Sector

Commercial Banks

Besides the regulations established in the Law of the Central Bank of Honduras, commercial banks are regulated by the Law for Banking Institutions enacted in September 1955, and the Commerce Code. The regulations are also applied to government-owned banks.

One of the features of the Banking Institutions Law is that every bank must be a corporation with a minimum capitalization and have banking activities as a sole objective. The Central Bank sets the minimum initial capital of each banking institution which in no case is less than \$50,000. The Central Bank also authorizes changes in capital stock.

The Law sets the amount of reserves banks and branches must maintain against loan, investment, and doubtful operations losses. Mortgage loans cannot exceed 60 percent of the value of the assets used as collateral; total mortgage loans do not exceed 20 percent of the capital and reserves or exceed 15 years in length. The Superintendence of the Central Bank examines private banks at least once a year.

In the event that a bank goes bankrupt, the credits belonging to Honduran residents have preference, in relation to other creditors, over the assets of the bank. Practically, deposits are not as well secured as in other countries.

In September 1979, there were 21 commercial private banks with assets of \$1,083.6 million and over 80 percent of the total banking offices. The four largest banks (each with more than \$100 million)

had 46.8 percent of the total assets. Two of these banks are branches of foreign banks, the Banco de Londres y Montreal Ltda., and the Bank of America. Two other banks have important participation from foreign banks; the Banco Atlantida has participation of the Chase Manhattan Bank, and the Banco of Honduras is affiliated with the First National City Bank.

Considering the consolidated balances of the Honduran private banking system, there were in September 1979, \$333.2 million in deposits, 37 percent of them being demand deposits. The commercial banks alone had 92 percent of the total deposits and 99 percent of the demand deposits. Remaining deposits were in government or municipal banks.

For all commercial banks some ratios were:

Loans to total assets = 69 percent

Demand deposits to total deposits = 37 percent

Time deposits to total deposits = 63 percent

Capital and reserves to total assets = 10 percent

The financing to the agricultural sector has changed over time. In 1950, commercial banks loaned 78 percent of the agricultural credit. That figure changed to 51 percent in 1960, 79 percent in 1970, and 44 percent in 1975. Since 1975, with the creation of new institutions like the COHDEFOR and the COHBANA, more "institutional" credit has been granted to the agricultural sector. With the recent creation of BANADESA, however, the spectrum of loan possibilities is wider for commercial banks, particularly in those cases when joint loans are necessary. Thus, as long as the development of agriculture is taking place, the role of the commercial bank in granting loans to the agricultural sector can increase in importance.

In June 1979, the distribution of loans included 22 percent in cattle raising, 17 percent in coffee, and 17 percent in sugar cane. In general, 80 percent of the loans are directed to cash crops and livestock mainly for export. Only 6 percent was directed to basic grains. Creditworthiness of the borrower is the basis for granting a loan or rediscounting loans from other financing sources.

A special type of commercial bank existing in Honduras is the Workers' Bank, a mixed government-private bank whose legal objectives are to satisfy the credit needs of workers, peasants, and small businessmen, and to promote savings among low income people. The Bank was created in 1966 with initial capital of \$250,000; a maximum of \$2.5 million in capital was established. Capital stock shares sell for \$5 per share and only workers, peasants and public employees (no officials) can acquire class "A" shares (right to vote). Federations and associations of workers, and cooperatives can obtain class "B" shares; class "C" are shares matching government contributions.

The Worker's Bank capitalized rapidly because each borrower had to buy 10 percent of the amount of the loan in capital shares. By 1979, it was the 12th largest bank, with a loan-to-assets ratio in September 1979, of 49 percent. It has been effective in granting loans to urban workers and employees, but it has not met the needs of small farmers. The stock purchase requirement hinders peasant farmers use of this bank as a credit source.

Agricultural Cooperatives

There were 576 cooperatives in Honduras in 1977, and about 40 percent of them were agricultural cooperatives. There were also 6 coop-

erative federations, four of them agricultural. Some agricultural cooperatives and their federations are basically medium and large farmer oriented (e.g. coffee, and cotton). On the other hand, there are cooperatives composed mainly of small farmers like land reform cooperatives, the cooperatives of the social forestry system, and fisherman cooperatives.

Although probably higher today, in the late 60's, only 2 percent of the Honduran farmers belonged to cooperatives. The strongest agricultural cooperatives have been built around cash crops such as bananas, coffee, and cotton. Some agricultural cooperatives are already involved in export business.

The Savings and Loans Federation of Cooperatives (FACACH) has been active in creating cooperatives. In 1978, 19.2 percent of the new loans granted by the Federation (3.2 million) went to agriculture. The Federation of Cooperatives of the Land Reform, created in 1974, had in 1978, 150 peasant enterprises with 4,751 members working on 46,243 hectares. Some of the efforts of the BANAFOM, the INA, and the COHBANA were directed to them.

On June 8, 1979, the Law for Agricultural Enterprises of the Land Reform was enacted. Enterprises under this law are involved in the transformation of agricultural products. Ownership is limited to the general government, cooperatives, and associative enterprises of the land reform. In those cases when the agri-industries are created by any governmental agency, the enterprises observe three stages. First, all legal and physical activities to become operational are completed. Second, cooperatives and associative enterprises are gradually given participation on the Board of Directors of the Enterprise. In this

stage, the government will stop its contributions to the firm. Transitory contributions of the government are amortized for repayment when the enterprise reaches its breakeven point. Last, the control of the firm will be strongly cooperative and will become exclusive when the cooperatives and associative enterprises substitute totally member's capital for the government's contributions. The enterprise is converted to a simple cooperative. Some firms have been already created under the scheme. It can be a model of an eventual credit system for small farmers.

Complementary Institutions of the Private Sector

Peasants Associations

In 1974, the National Association of Peasants (ANACH) had a membership of 85,000 families. The National Union of Peasants (UNC) had 22,000 families as members. Both associations have played an important role in the acceleration of the land reform process, but the credit assistance to them or through them is not known. In 1978, for ANACH, there were 518 enterprises benefiting 13,689 members, farming 69,299 hectares; the UNC had 319 enterprises with 7,359 members farming 40,045 hectares.

Peasants belonging to the associations receive the financial support of the BANAFOM, the INA, and the COHBANA. Peasant association leaders have a voice in several agricultural institutions including the BANADESA. They are called to play a more active and positive role on behalf of more than 100,000 landless workers.

Farmers' Associations

Small farmers or peasants and landless workers have on their behalf a land reform law. Medium and large farmers have their own law too and

are often organized into groups referred to as Farmers' Associations. The Agricultural Development Law enacted in November 1970, has as its objective the protection and development of economic activities for the exploitation and use of the land and its animal or vegetable resources. The benefits granted by the Law permit new farmers' associations to enjoy the exemption of direct taxes and indirect tax levies on imports of inputs and machinery that they need. Accelerated depreciation is also granted. Moreover, the Central Bank is entitled under this Law to establish preferential interest rates for agriculture, rediscount loans, and maintain preferential reserve requirements for those commercial banks having more than 30 percent of their loans in agricultural credit. The Law provides that commercial banks should maintain a determined percentage of funds destined for agricultural credit.

Farmers' associations are authorized to organize an agricultural insurance program to protect themselves against potential losses. To the Secretary of Natural Resources is given the chores of extension, provision of new varieties, soil classification, and quality control of fertilizers and other inputs. Also, the Secretary will work in activities related to sanitation measures and pest control. A National Agricultural Committee is created by the Law, with participation of farmers' associations, to supervise the application of the Law itself.

There are 22 farmers' associations belonging to the National Farmers Federation (FENAGH) with a total of 622 members. Like the peasants, they participate in the Board of Directors of some agricultural institutions, including the BANADESA. According to its statute, the FENAGH is to represent and defend the interests of the agricultural industry, to cooper-

ate with the government in the development and welfare of the sector, and publicize various legal rulings, and scientific information of interest to farmer members. The FENAGH can also negotiate loans for its members with preferential conditions and promote the formation of agricultural credit institutions. Another aim of the Federation is to encourage the organization of cooperative societies linked to the agricultural activity. One of the major programs of the FENAGH has been to pressure the government to slow down the land reform process.

Others

Insurance companies do not provide credit to agriculture. There is no information about the participation of dealers and merchants in providing credit in Honduras, even though it is known that they provide an important amount of short and medium-term credit to farmers. The participation of money lenders is also unknown. Thus, this report deals only with one part of the credit granted to agriculture. Further study of the total lending activity will require deeper analysis of the informal lenders participation to evaluate in a global form their role, either positive, negative, or eventually in conjunction with the formal channels of credit.

AGRICULTURAL FINANCE IN OTHER LESS DEVELOPED COUNTRIES

Attention will be paid to the general credit system features of other LDC's, without specifying any country in particular. However, whenever possible, the cases of the Latin-American region will be stressed based on the belief that the Honduran conditions are more like other countries of the same region.

Institutional Organization

Most LDC's have not developed a sophisticated money market. Furthermore, the agricultural sector is generally less monetized than the other sectors of the economy. There is general agreement that capital is scarce in developing countries. Nevertheless, there are some sources of capital which usually do not appear in the national accounts. They include the farmer's own work and his unpaid family help, international agencies which channel funds through governmental credit agencies, commercial banks, and other financial institutions.

Institutional suppliers of credit require the signing of a promissory note or an endorsement by co-signer, mortgage or other real collateral, and collateral value usually in excess of the amount borrowed. Nominal interest rates normally under official regulation vary from 6 to about 30 percent.^[8] Rates in agriculture are usually below bank rates charged in other sectors.

Supervised credit is accompanied by education. The extension worker

⁸World Bank. Agricultural Credit. World Bank Paper, Rural Development Series, Washington, 1974, Annex Table 9 P 11

and the farmer, together, work out a farm improvement plan. It is on the basis of this plan that credit is given (often in kind). The security is the repayment capacity of the borrower. The primary purpose of supervised credit is to assist poor farmers who are potentially creditworthy, to become creditworthy in fact. Supervised credit is not an alternative to cooperatives. Rather, it is a preliminary step toward their establishment.

Standard banking operations applied to the development of agriculture often fail to adapt to the special conditions prevalent in rural areas of LDC's. Yet, the allocation of credit to farmers is of greatest importance not only as a means of enabling the farmers to increase production or use better practices, but also as a tool of implementing developmental plans. Some countries encourage use of mobile offices to get banking facilities to rural areas. Some LDCs have stressed the development of strong cooperative movements to meet the credit needs of farmers.

Agricultural cooperatives perform four functions: marketing of agricultural products, purchase of farm supplies and equipment, provision of credit to individual farmers, and actual production in a cooperative farm. Cooperatives related to agriculture include consumer goods, processing, electrification, rural health and transport cooperatives.

Successful cooperatives show two features: member homogeneity and social cohesion. In several LDCs, cooperatives have failed because of size, lack of financial discipline, deficient support, and lack of leadership. In any event, cooperatives provide an organization to promote

savings, local facilities for the procurement of loans and repayments, close supervision of loan use, and economy of operations by drawing on the voluntary service of the members.

In countries where cooperatives enter into contracts to deliver part of their member's production to the government, governmental banks make advances against crops to be delivered. At the international level, there are institutions that finance agricultural cooperatives. One of them is the UNICO Banking Group, formed by six European countries dedicated to providing loans to public and private institutions.

In agriculture, the non-institutional credit is considered of paramount importance. Commercial firms, including suppliers of farm equipment, purchasers or exporters of farm products, general stores, and moneylenders are sources. Such informal credit markets are localized by transactions of money, real goods, and services among friends, neighbors, relatives, shopkeepers, itinerant traders, landlords and moneylenders. No collateral is required except the promise that the borrower's crop will be sold to the lender. Sometimes the borrower receives the loan the same day he asks for it.

Moneylenders operate in small zones. Borrowers usually are very small farmers and landless workers. The advantages of moneylenders over institutions are: selecting the borrower, enforcing repayment, adjusting loan terms, and operating with almost no costs. The negative aspects are that they do not provide services parallel to commercial lenders, and the rate of interest can be too high.

The weak agricultural credit markets lead to a lack of competition among lenders and therefore high interest rates, an inelastic supply of

funds, and the use of surplus funds for purposes other than increasing productivity. Rural savings institutions are underdeveloped. They require a well articulated system extended to rural areas. Integration of rural capital markets with one another and with the urban commercial sector holds promise of important contributions to agricultural development.

Policies

Developing countries have placed emphasis on short and medium-term credit, i.e. production loans. Some of the approaches used to deliver this credit include informal lenders and groups of lenders to deliver institutional credit to individuals, group loans to associations and cooperatives, integration of credit with education plus input supply and marketing information, project supervision, education with subsidized inputs in lieu of credit, and savings linked with credit. Whatever the policies adopted by governmental credit agricultural institutions, some problems encountered are high administrative costs, high default rates, complicated administrative procedures, poor coordination with other agricultural services, inadequate supply of loanable funds, and personnel problems.

One of the most controversial measures related to agricultural credit in LCDs is the justification in favor and against subsidized credit, i.e. low interest rates. Arguments against low interest rates have been: attracts large farmers who can quickly use up the funds otherwise available for small farmers, lending institution weakened if interest rates are fixed so low that costs cannot be covered, and transfer of capital to money center because a low lending rate

means a low interest on deposits which discourages savings in rural areas.

Instead of low interest rates, it is better to subsidize inputs. Interest rates should be realistic in relation to the levels of inflation within the country. Reasoning supporting high interest rates include: encourages large farmers to release funds from less productive uses and make them available to small farmers, increases institutional competition with non-institutional credit sources, even though the institutional rate is the lower of the two, lending institutions find it easier to cover the costs of administering small farmer loans, and savings would be stimulated.

The problem is that changes in interest rates for agriculture will affect interest rates for other economic sectors. Low interest rates encourage more capital intensive methods of production which does little to help decrease the unemployment in rural areas. Agricultural lending institutions, however, cannot forever get "free" money to channel to even a few defaulters.

In some countries, it is the large farmers who create the default problem. Among the causes of non-repayment are political favoritism, speculation on the part of the farmer to get a better price for the crop after harvest, unwillingness to pay, and the "demonstration" effect (if one borrower failed to repay a loan without receiving any punishment action, other borrowers would follow his example). Some remedies of the default problem are a "hard" policy applied by lenders in collecting debts, and maintaining farmers' respect for their obligations and for the institutions with which they are dealing. The most common response

to delinquency is to deny the borrower the right to get any further credit until his debts are paid. A crop insurance program may also help the creditworthiness of farmers, with insurance policies serving as collateral against eventual losses.

A direct correlation between loan repayment and the availability of new and profitable technology has been found in some credit programs. Therefore, it can be argued that a new technology is an important condition for a successful repayment record.

Until recently, little attention has been paid to the case of the "small farmers" who have been denied access to credit or who are too small to qualify for regular bank credit. When a single institution serves both large and small farmers, most of the funds go to the larger farmer. The comparison between granting credit to large and small farmers can be summarized as follows:

<u>Large farmer</u>	vs.	<u>Small farmer</u>
Cheaper cost		Expensive
Political influence		No voice
Less risky		More risky
Can offer security		Cannot offer security

The primary objectives of credit directed to small farmers are increased agricultural production, and increased social equity which result in improvement of peasants' incomes. Secondary objectives are improved nutrition, elimination of dependence on moneylenders, stronger position in the market, increased self-respect and hope for the future, improved social status and political influence, modernization of outlook, access to wider educational and occupational opportunities for the

farmers' children etc. Long-term fixed capital needs, often not capable of being handled by small farmers because of their size, can be overcome by organizing responsible farmers groups. In Africa and Latin America, 75 percent of the institutional loans are for two years or less and in Asia the figure is 65 percent.⁹

The obligatory use of correspondent services between commercial banks in rural areas and public development banks are in force in certain countries. In others, more compulsive devices are exerted when, for instance, insurance companies are required to deposit part of premium collections in agricultural credit institutions for rural lending.

In determining if credit should be handled by single, or multipurpose institutions, experience in Latin America (including the Honduran Case) has shown the addition of other services have resulted in deterioration in both the quality of credit and the credit institution's financial position. A single agency delivering several services at once depends on the availability of trained personnel and the degree of institutional development. An alternative is to deliver credit services at the local level through private companies. If a multi-service approach is adopted by the credit institutions, the costs and incomes from various activities should be kept separate. Otherwise, the causes of success or failure of the program cannot be identified.

Past experience in developing agricultural credit in LDCs has given some guidelines to achieve greater success:¹⁰

1. Accessibility - Try to be in direct contact with the farmer and

⁹World Bank, op.cit., p. 33

¹⁰Ibid, p. 55-57

his problems.

2. Package approach - Credit should be accompanied by technology, timely supply of inputs, and all the ancillary services that permit credit to be an effective instrument of agricultural development.
3. Distribution in kind - It has proven to be the most successful means of delivering production credit to small farmers.
4. Timing - It is especially important when credit is provided in kind.
5. Selection - The creditworthiness of the farmer can be measured taking into account three things: First, reputation of the borrower; second, technical feasibility of the proposed investment in the context of his farm situation; and third, the expected cash flow generated by the investment.
6. Individual liability and group liability - Transactions should be done in public to assure future social sanction.
7. Control - Supervise the use of the loans.
8. Flexibility - Make adjustments to circumstances, environments and "acts of God."
9. Continuity - The provision of services is not finished with the total repayment of the loan.
10. An open-ended approach - Follow a step-by-step approach related to the number of farmers attended, and related to the changes toward a modern agriculture.

PROPOSED CHANGES TO THE FARM CREDIT SYSTEM IN HONDURAS

To build an adequate institutional infrastructure congruent with the requirements of an efficient agricultural credit system, it is necessary to have the qualified management, an expert staff and an effective organization to get the money used in the best form and to the best advantage. With the information available, it was impossible to enter into detail about the specific problems of agricultural credit in Honduras. Nevertheless, with the description of the activities of the different institutions dealing with agricultural credit in Honduras, it can be easily seen that the problems encountered are the same as those of the majority of the LDCs which have tried different approaches to reach the agricultural population through agricultural programs for development.

Honduras started providing agricultural credit through BANAFOM, a government owned, multipurpose institution. Such an institution failed. But, because of its nature, it cannot be assumed that the failure was attributed only to the credit function. There is ample evidence that the multipurpose approach has failed in Honduras and elsewhere. Yet, today, the government continues to be involved in providing agricultural credit through presently established multipurpose programs, i.e. COHDEFOR, COHBANA, etc. Therefore, the first modification that ought to be made is to concentrate all the governmental institutional credit either through the BANADESA or through a specialized system. Credit is a specialized matter, therefore, it should be left in the hands of specialized institutions.

Yet, credit alone does nothing. The provision of new technologies plus extension and marketing services have to be considered together with credit. To finance traditional agriculture only serves to keep underdevelopment. Credit has to be an instrument directed toward a modern agriculture or, at least, a less traditional agriculture.

The Honduran government, based on internal and external resources, has to obtain capital and establish different stages to attain specific objectives and goals. Credit, as a source for agricultural development, should be directed to specific targets. Capital could be more expensive now than before, either because of the high interest rates set by international financing agencies or because of the opportunity cost for it. Yet, with most of the rural population living in conditions of absolute poverty, without clear hope of change in their horizon, stability dictates that the unrest of society cannot be ignored.

Thus, agricultural credit makes sense whenever it forms part of a policy for agricultural development and is directed to benefit the majority of the population. In this context, it is considered for the Honduran case that a set of measures facilitating access of rural people to a monetized economy and to an improved credit system have to be taken to improve the conditions. Two aspects are of paramount importance: first, to reduce the illiteracy rate to facilitate extension activity; second to accelerate the land reform process to permit more access to the land for small and landless farmers. Government subsidies can be justified for a limited time period if such subsidies, when combined with private inputs, result in benefits that are great than costs.

Giving peasants access to land can be a way of giving access to credit, if such land qualifies as real collateral. Giving them access to education is to permit the use of better agricultural practices and, therefore, increased production. The ideal agricultural credit scheme could be one which follows the same steps that the Honduran government has created in the case of agri-industry enterprises under the land reform program. In other words, the agricultural system can continue in the short and medium run in much the same way that now exists. But, a long-run plan must be set up to permit major participation of small farmers in cooperatives and associations since the government cannot subsidize the sector forever.

Purposely, the government and small farmers have been mentioned. Medium and large farmers can obtain credit in private banking institutions and, at the same time, enjoy the benefits of the Agricultural Development Law. In other words, they are "graduated" to receive regular credit. There is no bias in this assumption, and their participation cannot be ignored in terms of their contribution to agricultural development. Subsidized agricultural credit, however, should be granted only to those farmers who really need to be subsidized.

Considering agricultural credit as a gradual approach, those small farmers, associations or cooperatives who become "graduated" can strengthen their own agricultural credit system, and at the same time, can begin obtaining credit from private banking institutions. The Honduran coffee growers have already started creating their own banking institution. This example is a novelty in Honduras; there is little information about it; it is too early to say that is the path to be fol-

lowed by producers of other crops, ranchers, or small farmers.

Now short-term loans are the most important, but the expected further development of the country will require, sooner or later, long-term loans, basically to rural housing. Of course, at the present, the preoccupation is to satisfy the needs for production credit. However, the welfare aspects cannot be overlooked. Current housing conditions, electricity usage, and water availability (public utilities) reflect the absolute need for improving the standard of living of the Honduran rural population. The institutions in charge of providing such services should have concrete plans to raise their availability to more rural people.

The BANADESA is the revived intent of the Honduran government to improve the conditions of the agricultural sector through credit. This institution could succeed if its creation responds to a long-run plan for agricultural development. The BANADESA could be the trustee of INA, IHMA, COHBANA, IHCAFE, and COHDEFOR as well as all those institutions involved in agricultural credit in Honduras. The possibility of granting joint loans with private banks can further open the participation of commercial banks in agricultural credit. If the conditions of the country permit, the regulations related to forming a bank corporation could be relaxed, giving an opportunity for the creation of more unit and family banks through partnerships since some moneylenders have enough assets to open a bank. That could improve competition in the Honduran banking system and, therefore, reduce the monopolistic position of moneylenders as well as some commercial banks in determined areas.

A farm credit system to support development must be linked to a socio-economic system which encourages high savings rates and efficient investment of the capital saved or obtained. Accepting and encouraging savings deposits plus working with or through farmers' organizations to extend and collect loans is a model which is capable of becoming self-sustaining in maintaining farm production at its new, higher levels.

Agri-industries have a vital role in the development of agriculture. New markets can be opened up by effective use of post-harvest technology to process food and other agricultural products. The effects in added value, employment, income distribution, reduction of migration to urban areas, and increases of net foreign exchange are important. However, the credit needs of agri-industries are long-term, because of the need to obtain land, construct buildings, and acquire machinery and equipment.

Some aspects of change related to banking policies are to simplify and accelerate the lending procedures, to standardize the loan limits for different crops, to minimize information required, and to delegate decision making. More flexibility of the credit agency in collateral requirements include accepting a suitable long-term lease, crop liens, or bills of sale and considering the collateral of "character." Effective repayment machinery is essential for the financial health of the credit institution. The maintenance of operational efficiency of the financial institution is measured in terms of the speed and simplification of lending procedures, job satisfaction within the institutions, prompt handling of farmers' complaints, sound lending policies (including adequate actions against defaulters), improving internal audit, inspection of branches, and countering political and other external interferences.

Agricultural credit staffs have to be technical as well financial advisers for farmers. Hence, training in both areas is necessary. This training, along with adequate incentives, includes loan appraisal, financial analysis, farm management techniques, effective loan supervision, techniques of loan recovery, enterprise budgets, cash-flow analysis, and programming models of farms. Likewise, the supporting staff, extension workers, cooperative agents, and bank field personnel need to be adequately trained. Parallel measures must also be taken to educate people to reduce their reluctance in dealing with financial institutions.

To summarize, an effective agricultural credit system has to be set up within a long-run agricultural development plan. Such a plan should consider the changes of a traditional economy into a modern monetized economy.

A paternalistic attitude of the government now is justified, but, if the agricultural program reflects a sincere desire on the part of the government towards development, measures to increase the income of peasants and to permit a gradual ownership of the credit system for those who are supposed to be benefited are necessary. After 30 years of costly experience, small farmers continue in the same situation or maybe worse than before. These circumstances must be changed, and past mistakes can preclude future failures.

The eight governmental institutions which provide agricultural credit in Honduras should coordinate efforts among themselves and with other developmental institutions. The developmental institutions should improve the quality and quantity of services provided with the goal of

reaching more farmers and peasants. The private complementary institutions can help the development of the agricultural sector as long as they cooperate in organizing the kind of credit association best suited to the exogenous and endogenous factors affecting the farming household.

In terms of intersectional coordination, careful attention should be paid to the transport and energy plans. The education and health plans also deserve adequate consideration in the sense of improving living conditions in the countryside. The linkage between agriculture and manufacturing should be strengthened.

CONCLUSIONS

Taking into account the nature of the lending function for the agricultural sector, the institutional agricultural credit in Honduras can be divided into three sources:

1. Public - Government owned banks and those institutions dealing with the agricultural sector that lend money to farmers and peasants besides providing other services.
2. Mixed - Government-private owned banking institutions.
3. Private - Totally private banks, agricultural cooperatives, and peasants associations.

Public financial institutions had emphasized loans to large farmers. In this direction, they were not free from political interference. Recently, their interest has been centered on credit to small farmers. However, the lending actions taken by these specialized and non-specialized public institutions are not considered adequate. Agricultural credit has its own particular characteristics and should be financed primarily by a small number of specialized agricultural lending institutions.

The mixed credit institutions have participated very little in the granting of credit to the agricultural sector. In the case of private banks, their lending activities have been directed to medium and large farmers qualified by regular or standard lending requirements.

Information about non-institutional lenders is unknown, at least in the case of agricultural credit. Therefore, even though the role they play can be important, it cannot presently be measured or evaluated. Ways to identify the magnitude and institutionalization of the non-

institutional credit can be open to experimentation in the Honduran case.

Some cooperatives composed of medium and large farmers have been successful in Honduras. Some peasants cooperatives and peasants associations have been successful too. But in general, the performance of cooperatives is unknown. Very likely their results have been mixed.

One feature of the institutional agricultural credit is its increased dependency on foreign sources. Though such a situation is not solely applied to the agricultural case, its implications are not necessarily desirable. An increase in income level and better income distribution could increase the marginal propensity to save, thereby counteracting the foreign financial dependence.

General agricultural credit in LDCs has been inadequate because of the weakness of the lending institutions, the default problem, and the low accessibility of credit to the majority of the small farmers. Again, in some countries the cooperative scheme has been successful. But, although some problems are common to all LDCs, the strategies to deal with a national credit system have to be suited to the particular condition of the country, and, within the country, to the specific conditions of every region, farmer, and particular crop.

Agricultural credit should be considered nothing more than an instrument for agricultural development with the aim of improving the general economic development and, specifically, the welfare of the majority of the population who live in rural areas. Thus, besides the required general efficiency of the credit institutions themselves, additional measures have to be taken to assure an increasing efficiency of the farms.

Doing farming practices more efficiently is the best way to preserve the existence of a sound agricultural credit system with a low level of default. Application of new technologies, better control of diseases, improved seed and more disease resistance varieties, irrigation and flood control, education, improved marketing of inputs and products, adequate rural transportation, price stabilization, appropriate land tenure system, and adequate and efficient socio-economic planning are sine qua non conditions for the success of a credit program. In other words, the "package" approach has to be applied.

Subsidized credit should be granted only when it is necessary and in a selective form but not with indefinite character. Ideally an adequate agricultural credit system should follow three stages. First, the protective action of the government granting concessionary interest rates on loans and other "free" services is a beginning. At any level, the total cost of such programs has to be compared with the total benefits of it.

Second, the government should promote and encourage the creation of an adequate institutional credit structure that is directed to satisfy the needs of farmers and peasants. The type or types of organization should be selected by the agriculturists themselves and not imposed either by law or by policy measures. In this stage of institutional building, the help, advice, and contributions from the government would continue to be necessary, but the path of every institution must be decided by its own members.

In a third stage, farmers and peasants (it is expected the socio-economic differences among them would be minimum at this stage) are supposed to take care of themselves relative to their credit needs. The

role of the government should be confined to only providing the ancillary services.

How long every stage of the program will take will depend on the sincere, serious, and strong decision of the government toward agricultural development; the willingness of farmers and peasants to work together; the general economic conditions of the country; and the path of international economic events.

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INSTITUTIONAL AGRICULTURAL CREDIT: THE HONDURAN CASE

by

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B.S., Universidad Nacional Autonoma de Honduras, 1974

AN ABSTRACT OF A MASTER'S REPORT

submitted in partial fulfillment of the

requirements for the degree

MASTER OF SCIENCE

Department of Economics

KANSAS STATE UNIVERSITY
Manhattan, Kansas

1980

The Honduran economy is based on agriculture since this sector provides 64 percent of the labor force, more than 75 percent of the exports, and more than 30 percent of the GNP (without considering the problems of measuring self-consumption). Except in the case of some cash crops and livestock products destined for export, the Honduran agricultural sector can be considered traditional. Given the population growth rate and the known reserves of the country, the development of agriculture is urgent and necessary to alleviate the unemployment and food demand problems.

Agricultural credit has been provided by the Honduran government since 1950, but has faced the same obstacles as in other less developed countries. Problem areas include the impossibility of covering loan costs because of the restricted low interest rates, the default problem, and the difficulty in reaching small farmers.

To date there are eight governmental institutions granting loans to the agricultural sector. Funds for the loans are derived from both internal and foreign sources. Only one institution is a specialized lending institution. Private banks provide about 50 percent of the agricultural credit, but mainly to agricultural exporters. The credit role of agricultural cooperatives and peasants' associations has not been significant so far. Because of the belief that credit alone does very little, the role of other developmental governmental institutions is important to obtain the goal of improved output. Thus, marketing, input supply, research, extension and other ancillary services are necessary to obtain agricultural development. The participation of informal lenders, i.e., merchants, dealers, money lenders, etc. is considered important but difficult to document.

Peasants and farmers associations could exert a greater influence in creating a more extensive and articulated credit system by working together with private and government credit institutions. A prospective long-run plan of agricultural development would include a credit system owned by peasants or farmers according to their own necessities and alternatives.