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THE LEVEL OF EDUCATION AND EXTENT OF CREDIT USE OF SMALL
BUSINESSMEN IN THE SANTOS GUARDIOLA MUNICIPALITY OF
THE BAY ISLANDS, HONDURAS

DISSERTATION

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By

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The small businessman in an undeveloped country often finds himself isolated from formal, institutional credit sources, either through ignorance or by his non-acceptability as a credit risk. Both his lack of credit and lack of education can limit his participation in national development, and in fact, such development might even work against him as it makes his competitors' easier access to these resources even more important.

Shrimp fishing is the major industry in Santos Guardiola. This, along with local men working overseas as ship or oil rig crews, provides most of the external income for the islands.

Data were collected from the four institutions granting business credit in Santos Guardiola: Santos Guardiola Credit Union, Bancahsa, Banco Atlantida, and Financiera Hondurena. Additional data were collected from the Ministry of Education, the Ministry of Economics, the National Teachers School, the library of the National University of Honduras, and a sampling of businessmen in Santos Guardiola.

This paper is divided into six chapters, the first three being primarily background for the study. Chapter Four deals with the educational level of businessmen in Santos Guardiola and its relationship with various financial variables, and Chapter Five deals with credit conditions in Santos Guardiola and describes each institution that grants credit there. The last chapter gives the findings, conclusions and recommendations.

It was concluded that the educational level achieved by the small businessman in Santos Guardiola is roughly the sixth grade, that the lack of business and financial content in their formal education does not prevent their learning about business and finance, and that a large majority of them use credit in their business. It was further concluded that the loan officers with the four lending institutions have adequate education and training to administer the loans made, that business credit needs are generally satisfied without resort to an informal credit market, and that while the deposits and business loans are expanding for all four institutions the credit union has been able to expand most rapidly by attracting the small saver and the small borrower. In addition, it was concluded that development banks are primarily interested in large industrial projects that are generally not suited to Santos Guardiola.

Based on these conclusions, it was recommended that the credit union or other institution establish a series of small

business management seminars for the vocational education of local businessmen, that the content of the formal education be expanded to include business and financial subjects, and that scholarships at the national university be established specifically for Bay Islanders in order to increase the contribution of higher education to the local economy, help integrate the English oriented culture of the islands with the Hispanic culture of the mainland, and decrease the currency drain of supporting students studying in foreign countries.

It was further recommended that credit unions be encouraged throughout Honduras, as they attract the small amounts of capital that might otherwise not find their way to the capital market at all. This could be critical in capital-short Honduras.

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CHAPTER I

INTRODUCTION

The arrival of rapid economic development to an area or region of an underdeveloped country often finds the local population unprepared for the sudden change that comes with modern industrial society. In addition to the many social problems that arise, the local businessman often finds that he is unable to raise the capital needed to grow with his market. The small tradesman or self-employed craftsman that has not cultivated contacts with financial institutions will find the problem particularly acute, and will often be displaced by larger non-local operations that have the capital and skilled manpower to fill expanding needs. These tradesmen, then, are unable to take full advantage of economic expansion due to lack of capital, and in underdeveloped areas where they may also lack the appropriate skill and education they may even be hurt by such progress.¹

As an example of an undeveloped country, Honduras has the lowest per capita income in Central America, a low literacy rate, and a high percentage of the work force in

¹Duane A. Olsen and John A. Kuehn, Migrant Response to Industrialization in Four Rural Areas, 1965-1970 (Washington, 1974), pp. 4-5.

marginal agriculture.² The municipality (similar to a county in the United States) of Santos Guardiola in the Department of Islas de la Bahia measures somewhat above the country average on most educational and economic measures,³ but is still a very poor region with its work force concentrated in overseas employment and fishing.

The Bay Islands area has been designated by the Honduran government as one of its sites for intensive tourist development, and plans have been made to construct an international airport and expanded road network on the main island of Roatan.⁴ Foreign and Honduran private development capital is coming into the area and large blocks of investment are expected to build the other facilities needed for a tourist boom. The Bay Islands are now in the beginning stages of rapid economic development, and although there are several sources of private credit, the literature has paid little attention to the problem of its availability to small proprietors. Along with his many other problems resulting from rapid change, the small businessman or tradesman in an undeveloped country is faced with failure due to non-availability of credit. In addition, both his formal and

²Business Latin America (New York, December 21, 1972), p. 404.

³Direccion General de Estadisticas y Censas, Departamento de Islas de la Bahia: Poblacion y Vivienda--1961 (Tegucigalpa, 1963).

⁴Statement by Jacobo Goldstein, Director of Instituto Nacional de Tourism, Tegucigalpa, June, 1974.

informal education may have failed to prepare him for the use or comprehension of credit, even if credit is available.

Conventional lines of credit are available in Honduras, the most common sources being development banks, commercial banks, and financieras. The development banks, whose loans typically go to the larger industrial projects, are semi-official agencies for development financing such as the World Bank, Inter-American Development Bank, Central American Bank of Economic Integration, and the National Development Bank (of Honduras). The important commercial banks in Honduras are Banco Atlantida, Banco de Honduras, Banco Capitalizadora Hondureno (Bancahsa), and Banco de Ahorro Hondureno. Financieras are normally private financial institutions with services ranging from conventional loans to equity participation, but the only one in Honduras, Financiera Hondurena, functions as just another commercial bank.⁵ Private individual lending is also common.⁶

Subject of the Study

The subject of this study was the investigation and description of the relationship between the level of education of the small businessman of Santos Guardiola, the

⁵Statement by Allan O. Parades, Assistant Manager, Banco Financiera Hondurena, San Pedro Sula, Honduras, June, 1974.

⁶Business International, Central American Common Market (New York, 1972), pp. 862-869.

business and financial content of their formal education, and their use of business credit. This was not, however, a controlled study but a descriptive study.

Purposes of the Study

The purposes of the study were to (1) determine the level of education of the small businessman, (2) identify the business content of their education, (3) find out how well they presently understand some of the basic principles of credit, (4) determine their sources of credit, (5) describe how the businessman is served by credit, and (6) identify the factors that determine how credit is allocated.

Questions Relevant to the Study

To carry out the purposes of the study, the following questions were formulated:

1. What is the educational level of the small businessman in Santos Guardiola?
2. How well is the use of credit understood by the small businessman?
3. What basic business skills did the small businessman receive in his formal education?
4. How widely is credit used by the small businessman?
5. What are the credit policies of
 - a. development banks,
 - b. commercial banks,

- c. financieras,
- d. private lenders,

toward the small businessman in Santos Guardiola?

6. What is the educational level of the loan officer or credit manager that approves business loans?

7. How well is the use of credit understood by the private lender?

8. What business skills did the loan officer or credit manager receive in his formal education?

9. What part of the credit used by the small businessman comes from development banks, commercial banks, financieras, or other sources?

Definition of Terms

For the purposes of the study the following definitions were formulated:

Small Businessman.--Any person operating a business or earning an independent living other than Mariscos Hybur, S. A.

Limpera.--Currency unit of Honduras, worth \$.50 United States during the period of the study.

Limitations

This study was limited by financial and time restrictions, and was further limited by the reluctance of some people to discuss their private financial affairs.

Assumptions

It is assumed that information and statistics received during interviews were accurate, and that interview responses were honest.

Significance of the Study

The small businessman almost anywhere in the world is usually out of the mainstream of the flow of credit, and is seen by lenders and lending institutions as a high-risk borrower. His typical lack of education and managerial skills which contribute to the high default rate that scares the lender also might cause the potential small borrower to view the use of credit as a sign of danger and something to be avoided, with a "solid" business being one free of debt, i.e., not using credit.

In the underdeveloped countries subjected to rapid economic growth, this unwillingness or inability to obtain credit could deny the businessman the capital needed for growth and expansion. This failure to expand would mean that the business might not fit in an expanding economy, and might not survive. This study attempted to determine if these problems are faced by the small businessman in Santos Guardiola.

This paper will be a help to economic development and planning agencies, banks and financial institutions, and small businessmen in planning for future growth. In addition,

to the extent that the discussion of credit is not already included in the formal course of study, it will help in further integrating the study of credit and other business subjects into the curriculum for schools of business, local schools, and local adult education classes. While this study concerns credit and educational level, it is only obliquely related to higher education. This study would specifically help the planning of the long range tourist industry expansion⁷ now in its initial phase in the Bay Islands, and in the makeup of the industrial development plan now being drafted in the Ministry of Economics.⁸

Procedures for Collecting Data

All institutions granting commercial credit in Santos Guardiola were questioned to determine the total number of loans outstanding in Santos Guardiola, the size of each of these loans, and the nature and value of the assets and deposits pledged against these loans. These institutions were further questioned to determine the level of education of officers responsible for approving loans, and their general credit policy toward loans on the Bay Islands.

The manager of the Santos Guardiola Credit Union, Goldie Cooper, was interviewed and the complete records of the credit union made available.

⁷Goldstein, op. cit.

⁸Statement by Abraham Bennaton, Minister of Economics for the Republic of Honduras, Tegucigalpa, June, 1974.

The general manager of the La Cieba branch of Bancahsa, Renaldo Canales, was interviewed and extracts from the bank records of their thirteen Santos Guardiola commercial accounts were given in response to the questions on credit. Questions about the general loan policy and about the educational level of the loan officers were answered directly.

Allan O. Pareedes, assistant manager of Banco Financiera Hondureno in San Pedro Sula responded to questions about the level of education of their loan officers and their general credit policy, and extracted the requested information from their records on both of their commercial accounts in Santos Guardiola.

Dr. Paul Vinelli, president of Banco Atlantida, answered questions concerning the bank officers' level of education and the bank's credit policy, and Rolando Funes, general manager of the branch in La Cieba, reiterated this information and extracted the desired statistics on their one loan outstanding in Santos Guardiola.

In-depth interviews were held with sixteen local businessmen to determine their understanding of nine different concepts of finance and credit: (1) interest rate, (2) collateral, (3) payback period, (4) compound interest, (5) cost of capital, (6) fixed and variable costs, (7) financial leverage, (8) present value, and (9) net present value. Initial interview attempts met with non-cooperation as pointed out in Limitations. The number of businessmen interviewed was limited by

the number that could be met on a personal and social basis during the time of the study. This selection could not be random, but neither can any systematic bias be identified.

The Under-Secretary of Education for Integrated Educational Planning, Celan David Galeano, was able to identify the total business, financial, and credit content in the public school curriculum up to the university level. In addition, he gave information on the number and location of official schools in Santos Guardiola and the number of students and teachers in each, but was unable to comment on the private schools in the area.

Jose Carleton Corrales, the Director of the National School for Teachers, gave a comprehensive description of the educational system in Honduras.

General descriptions of economic conditions and plans for the future were obtained from interviews with Abraham Bennaton, Honduran Minister of Economics, Jacobo Goldstein, Director of the National Tourist Institute, and Porfidio Zavala, Manager of the Central Bank of Honduras.

Guillermo Dubon, the Manager of the Census Section of the General Directorate of Statistics and Census, extracted gross population figures for Santos Guardiola from the census completed in March, 1974, and furnished publications based on the previous complete census of 1961.

Statements by Arturo Pino Navarro, Director of the Inter-American Development Bank in Honduras, Dr. George St. Siegens,

consultant for the National Development Bank, Robert Mathia, Assistant Director for the Agency for International Development in Honduras, and Godofredo Quiros, Director of the Development Cooperative, were able to establish that none of their development institutions had any projects in Santos Guardiola.

Summary

The inception of economic development in an undeveloped region often finds the local businessman unprepared to participate in this progress due to lack of education and skills, or capital and credit. This study is an attempt to describe this process in a small Honduranian municipality, and was accomplished through interviews with bankers, government officials, educators, and local businessmen.

CHAPTER II

REVIEW OF THE LITERATURE

This chapter includes a review of the literature in several different areas that concern the educational level and credit use of businessmen in Santos Guardiola. First, some of the writings about education in Latin America and Honduras are discussed. Second, publications in the area of the historical and sociological background of Honduras and the Bay Islands are presented. Third, works concerning the present economic environment of Central America, Honduras, and the Bay Islands are outlined.

The discussion of the writings concerning Latin America and Honduras must of necessity be broad, as much has been written in this area. The discussion of the writings concerning the Bay Islands and Santos Guardiola must of necessity be limited, as very little has been written in this area. Except for official publications and statistics, the few publications that do deal with the Bay Islands rarely mention Santos Guardiola. In addition, environment and conditions on the mainland generally serve as background only and cannot be validly generalized to include the study area, which is sociologically speaking not really even part of "Latin" America.

Education

Groves¹ discusses the educational process as an investment and completed education as capital, and establishes the dependence of the economic development process on the educational level of the population. The impact of education on efficiency and innovation is also discussed.

Adams also points out the correlation between the level of education and economic development, but goes on to say that in Latin America the racial makeup of the population also is strongly correlated with economic development. A higher European population goes with more advanced economic development. In addition, three major obstacles to Latin American educational development are discussed: The Indian or mestizo refusal or inability to integrate into a national culture, the rapid population growth as a strain on already inadequate educational facilities, and a value system that distrusts official authority and does not see education as a desirable route of social advance. The last problem is augmented by the negative effect of education on fertility with the result that the uneducated classes reproduce faster.²

The dependence of economic power on educational level achieved is further reinforced in Latin America by studies

¹Harold M. Groves, Education and Economic Power (Washington, 1961), pp. 32-42.

²Don Adams and Robert M. Bjork, Education in Developing Areas (New York, 1969), pp. 100-122.

done in Mexico,³ Chile,⁴ Columbia,⁵ and Venezuela⁶ calculating the internal rates of return for the marginal year of education based on an analysis of the cost of education (both actual and opportunity costs) versus the expected increased earning and lifespan of the individual. The results were interpreted by Carnoy,⁷ and demonstrated an extremely high return relative to the United States, with the highest marginal return generally being for the lower grades as might be expected in developing countries.

Duncan brings out the effect of education and literacy on political involvement in developing countries, contending that ability to read leads to a greater awareness of and interest in a person's surroundings, and also leads to an inclination to do something to influence these surroundings such as taking political action. Duncan goes on to substantiate this by showing a relationship between literacy and the formation of political parties, and between literacy and the

³Martin Carnoy, "The Cost and Return to Schooling in Mexico," unpublished doctoral dissertation, Department of Education, University of Chicago, Chicago, Illinois, 1964.

⁴Arnold C. Harburger and Marcelo Selowsky, Key Factors in the Economic Growth of Chile, Paper presented at Cornell University Conference, April 20-22, 1966.

⁵Guillermo Franco Comacho, "Rendimiento de la Inversion en Educacion en Colombia," Universidad De Los Andes, Bogata, 1964.

⁶Carl Shoup, The Fiscal System of Venezuela (Baltimore, 1959).

⁷Martin Carnoy, "Rates of Return on Schooling in Latin America," The Journal of Human Resources, II (1967), 339-374.

numbers of military overthrows between 1945 and 1964. The strong relationship is again demonstrated between various Latin American national literacy rates and per capita income.⁸

This relationship between education and economic development is further established in a seventy-country study by Bennett that differentiates between general and vocational (technical) training at the secondary level. The study shows that general education is weakly correlated, and vocational education strongly correlated, to three economic indicators: per capita Gross National Product, per capita calorie intake, and per capita energy consumption. This relationship is found in all areas of the world except Europe and North America, which have a slightly negative correlation of vocational education to all three economic indicators. Bennett further found that the ratio of vocational to general secondary education bore a positive correlation with per capita Gross National Product (GNP) in developing countries and a negative correlation in developed countries, indicating that in early stages of development vocational and technical training is more needed than general education, and in later stages of development the generalist is more needed.⁹

⁸W. Raymond Duncan, "Education and Political Development: The Latin American Case," The Journal of Developing Areas, III (January, 1968), pp. 187-210.

⁹William S. Bennett, Jr., "Educational Change and Economic Development," Sociology of Education, XL (Spring, 1967), 101-114.

McClelland reviews several studies that again express a strong correlation between educational level and economic level, but carries it further and establishes a correlation between educational level and rate of economic growth for thirty-six countries throughout the world. McClelland, however, still does not come to grips with the problem that such studies have not yet established a causal relationship between education and economic measures.¹⁰

In a study of Higher Education in Central America, Henkin discusses the problem of university isolation from much of society as a result of the autonomous arrangement of universities that is typical in Latin America, and the problem of limited resources at the university level as a constraint on the production of graduates, and thus as a constraint on economic development. Henkin also discusses the cooperation of the Central American universities through the council organized to facilitate region cooperation, and includes a section that discusses the history and organization of the National Autonomous University of Honduras.¹¹

Hill, in his study of Central American Universities, also discusses the Higher Council of Central American

¹⁰David C. McClelland, "Does Education Accelerate Economic Growth?," Economic Development and Cultural Change, XIV (April, 1966), 257-278.

¹¹Alan Barry Henkin, "A Critical Analysis and Appraisal of the Higher Council of Central American Universities: A Regional Program for Higher Education," unpublished doctoral dissertation, Department of Education, University of Wisconsin, Madison, Wisconsin, 1972.

Universities (CSUCA) as well as other agencies for regional educational cooperation, and what impact this will have on regional cooperation and coordination in other fields.¹²

Tobia, in a comparative study of the educational system in Central America, gives a perspective not limited to higher education and arranges a more detailed description of education in Honduras as well as a comparative analysis of curriculum and scholastic standards, level of teacher training, sex distribution of teachers, basic salary for school graduates, and teacher-pupil ratios at the primary level. Several social, industrial, and educational factors that correlated with educational production were discussed.¹³

In a study on the need for research in education planning in undeveloped nations, Freijo contends that as a result of his research in Honduras, a much stronger educational planning program is needed in Latin America, especially the development of the potential for conduct of research preliminary to planning.¹⁴

¹²George C. Hill, Jr., "Regional University Cooperation and Reform in Central America: Its Development, Progress, and Promise," unpublished doctoral dissertation, Department of Education, The Catholic University of America, 1970.

¹³Peter Ernest Tobia, "A Comparative Study of the Educational Systems of the Five Central American Countries," unpublished doctoral dissertation, Department of Education, Ohio State University, Columbus, Ohio, 1968.

¹⁴Tom David Freijo, "Developing Research Skills for Educational Program Planning in Honduras: Process and Product," unpublished doctoral dissertation, Department of Education, University of Florida, Tallahassee, Florida, 1972.

Gomez¹⁵ and Odonez¹⁶ both stress the correlation between education and economic development specifically as a tool for development of Honduras.

Davidson's historical geography of the Bay Islands sets the first establishment of schools there around the 1850's when a wave of Protestantism swept the English speaking western Caribbean and church schools were formed.¹⁷

Later attempts were made by Barahona, during his administration as governor, to abolish English-speaking schools and institute Spanish schools.¹⁸ In spite of his failure in this, Valera states in 1937, that the program of Spanish schools continued, and was even improved.¹⁹ The Bay Islands today have a mixture of English and Spanish schools as discussed in chapter four.

¹⁵Pablo Ulises Gomez Velasquez, "La Educacion: Clave del Desarrallo Economico y Social," Universidad Nacional Autonomo De Honduras, Tegucigalpa, 1969.

¹⁶Roberto C. Odonez Larios, "Educacion, Recursos Humanos, y Desarrollo de Honduras," Universidad Nacional Autonomo de Honduras, Tegucigalpa, 1969.

¹⁷William V. Davidson, Historical Geography of the Bay Islands, Honduras: Anglo-Hispanic Conflict in the Western Caribbean (Birmingham, 1973).

¹⁸Rafael Barahona Mejia, Referencias Sobre Islas de la Baja (Tegucigalpa, 1919).

¹⁹Elpidio Valera, "La Nacionalizacion de los Islas de la Baja," Repertario de Honduras (February 15, 1937).

Historical and Sociological Background

In his history of early colonial Honduras, Chamberlain discusses the discovery by Columbus during his final voyage, and the fact that his landing on Guanaja in the Bay Islands was the first European contact with Honduras.²⁰ Davidson's study describes the early Spanish slaving that took place on the Bay Islands during this period, and the eventual settlement and Christianization of the natives and the end of slave raids.²¹ Hamshere discusses the English use of the Bay Islands during the intermittent British-Spanish warfare of the colonial period, the English influences along the Mosquito coast, the English settlement pattern and actual colonization in the mid 1800's, and the continued present resistance of the islanders to the sovereignty of Honduras rather than Britain.²² A geographical description of the Bay Islands is given by Squier describing the topography, climate, and population, and giving quotations from the descriptions of various other authors.²³

Economic Environment

An extensive amount of material can be found dealing with the economies of Latin America, but almost nothing is

²⁰Robert S. Chamberlain, The Conquest and Colonization of Honduras (New York, 1966), p. 9.

²¹Davidson, op. cit.

²²Cyril Hamshere, The British in the Caribbean (Cambridge, 1972).

²³E. G. Squier, Honduras (London, 1870).

written about the Bay Islands specifically. Castillo,²⁴ Wionczek,²⁵ Nisbet,²⁶ Quiros-Guardia²⁷ and others deal with the problems of economic integration in their works and discuss the fragmented nature of the Latin American economy, the pressures for integration, the free trade associations and common markets, and the future of economic integration. Verbit discusses export-import agreements for developing countries, exchange controls, restrictions, and effect of grade policy on development,²⁸ while Maizels specifically discusses the need for undeveloped countries to export in order to develop.²⁹

In spite of the central importance of agriculture in most Latin American countries and its importance to Honduras in particular, at the present time it plays virtually no part in the industry of the Bay Islands. Dormer, in his land

²⁴Carlos M. Castillo, Growth and Economic Integration in Central America (New York, 1966).

²⁵Miguel S. Wionczek, Latin American Economic Integration (New York, 1966).

²⁶Charles T. Nisbet, Latin America Problems in Economic Development (New York, 1969).

²⁷Rudolfo Eduardo Quiros-Guardia, "Agricultural Development and Economic Integration in Central America," unpublished doctoral dissertation, Department of Geography, University of Wisconsin, Madison, Wisconsin, 1971.

²⁸Gilbert P. Verbit, Trade Agreements for Developing Countries (New York, 1969).

²⁹Alfred Maizels, Exports and Economic Growth of Developing Countries (Cambridge, 1968).

tenure study, discusses the interaction of income distribution, productivity, and ownership.³⁰ Sund further expands on the problem of agricultural productivity through subsistence farming by non-owners of the land, noting that fertilizer use and other land maintenance, capital investment, power use, and yields were low when tenure of the land was not secure.³¹ Hill,³² Adams and Schulman,³³ and Saa³⁴ mention the problem of low productivity of small subsistence plots, and the problems this presents for land reform.

Shaw has discussed land tenure in relation to the massive movement of Latin American population from the countryside to the cities,³⁵ and Hathaway's study of a similar migration in the United States only demonstrates the generally accepted universality of this demographic movement as a part

³⁰Peter Dorner, Land Tenure, Income Distribution, and Productivity Interactions (Madison, 1964).

³¹Michael Sund, Land Tenure and Economic Performance of Agriculture Establishments in Northeast Brazil (Madison, 1965).

³²George W. Hill, The Agrarian Reform in Costa Rica (Madison, 1964).

³³Dale W. Adams and Sam Schulman, Minifundia in Agrarian Reform, A Colombian Example (Madison, 1967).

³⁴Carlos Comacho Saa, "Minifundia, Productivity and Land Reform in Cochabamba," unpublished doctoral dissertation, Department of Geography, University of Wisconsin, Madison, Wisconsin, 1966.

³⁵Richard Paul Shaw, Land Tenure and the Rural Exodus in Latin America (Philadelphia, 1972).

of industrialization.³⁶ An overall integrated economic development analysis for the Central American Common Market countries is given by Quiros-Guardia, along with an analysis of tariff and import policies, effects on balance of trade, and impact on agricultural operations.³⁷ Thuesenhusen discusses the effect of the dramatic new agricultural plants and techniques developed at the Corn and Wheat Improvement Center in Mexico on the income of farmers,³⁸ and a study from the center itself by Cisneros discusses the central part that credit plays in financing and making possible the utilization of the center's research in its pilot project in Puebla, Mexico.³⁹ The use of agricultural credit is further considered by Rao, outlining the difficulties the small farmer has in obtaining access to the credit market.⁴⁰ Nehman discusses this lack of access to credit and its impact on capital

³⁶Dale E. Hathaway, "Migration from Agriculture: The Historical Record and Its Meaning," American Economic Review (May, 1960), pp. 379-391.

³⁷Rudolfo Quiros-Guardia, Agricultural Development and the Central American Common Market (Madison, 1971).

³⁸William C. Thuesenhusen, Green Revolution in Latin America: Income Effects, Policy Decisions (Madison, 1972).

³⁹Heliodoro Diaz Cisneros, Credit Among Small Farmers: The Case of the Puebla Project of Mexico (Puebla, Mexico, 1972).

⁴⁰Bodepudi Prashado Rao, "The Economics of Agricultural Credit Use in Southern Brazil," unpublished doctoral dissertation, Department of Economics, Ohio State University, Columbus, Ohio, 1970.

efficiency and resource allocation.⁴¹ Nisbet presents a study on an official approach to this problem by making credit available through government agencies or institutions,⁴² and Loehr analyzes these institutional credit programs and their function in economic development, and goes further to evaluate their effectiveness in stimulating national development.⁴³ The problem of credit availability to the small farmer in Latin America is discussed by Holmes, and the function of the developing credit union system in meeting this demand for credit is described.⁴⁴ Moody and Fite give a history of the international credit union movement, but Latin America is not mentioned.⁴⁵ Nisbet describes the informal credit market in Chile and comments on its

⁴¹Gerald Ira Nehman, "Small Farmer Credit Use in a Depressed Community of Sao Paulo, Brazil," unpublished doctoral dissertation, Department of Economics, Ohio State University, Columbus, Ohio, 1973.

⁴²Charles T. Nisbet, Supervised Credit Programs for Small Farmers in Chili (Madison, 1967).

⁴³William John Loehr, "Toward a Comprehensive Evaluation of Development Institutions: The Institutional Effectiveness of the Nicaraguan Rural Credit Program," unpublished doctoral dissertation, Department of Economics, University of Colorado, Denver, Colorado, 1971.

⁴⁴David Noyes Holmes, Jr., "The Economic Nature of the Credit Union and Its Role in Rural Credit Reform: A Case Study of Venezuela," unpublished doctoral dissertation, Department of Economics, University of California, Los Angeles, California, 1969.

⁴⁵J. Carroll Moody and Gilbert C. Fite, The Credit Union Movement (Lincoln, 1971).

noncompetitive nature and its interest rates, term structure, size, and other characteristics.⁴⁶ A description of trade credit in El Salvador and an analysis of its importance and advantages for developing economics is given by Brasch.⁴⁷ Baer examines the impact of tax policy on the development of Honduras, and Brand discusses the historical impact on the economy of Honduras of the non-reinvestment locally of surplus capital.⁴⁸ Foust describes the process of Central American planning for agricultural, health, economic, social, and political integration,⁴⁹ while Knudsen examines some of the many reasons a local government may expropriate foreign investments.⁵⁰

In summary, the literature has dealt extensively with Latin American education, society, economics, and finance. On the other hand, very little has been written in these areas about the Bay Islands and Santos Guardiola.

⁴⁶Charles Nisbet, Interest Rates and Imperfect Competition in the Informal Credit Market in Rural Chile (Madison, 1967).

⁴⁷John Joseph Brasch, "A Descriptive Analysis of the Trade Credit System of El Salvador," unpublished doctoral dissertation, Department of Business, Washington University, St. Louis, 1970.

⁴⁸Charles Abbey Brand, The Background of Capitalistic Underdevelopment: Honduras to 1913 (Pittsburg, 1972).

⁴⁹Donald R. Foust, "Regional Integration in Central America," unpublished doctoral dissertation, Department of Economics, University of Nebraska, Lincoln, 1971.

⁵⁰Harold Knudsen, "Expropriation of Foreign Private Investments in Latin America," unpublished doctoral dissertation, Department of Economics, University of Oregon, Eugene, Oregon, 1972.

CHAPTER III

AREA BACKGROUND AND DESCRIPTION OF THE BAY ISLANDS

The Bay Islands are situated off the north coast of Honduras in the Bay of Honduras, a location which, during the colonial period, placed them in an ideal position as a base for pirate and military raids on the mainland. Figures One and Two, maps of the area, show this location and the proximity of the Bay Islands to various points on the mainland. This fact of location and the Spanish-English conflict that was intermittent in the Caribbean during most of the colonial period were probably decisive in determining both the ethnic makeup of the present inhabitants and the social and economic isolation that, until recently, separated the islands from the rest of Honduras. Most of the present population use English as the mother language and still maintain cultural and ethnic links to the English-speaking world. The people are mostly of either Negro, Caucasian, or Negro Creole racial background. Under the impact of improved transportation and communication, the frequent attempts of the central government at Hispanization of the islands are now having more effect and causing more friction as the Spanish culture attempts to overwhelm the English culture.



Fig. 1--Outline map of Central America, Showing the Location of the Bay Islands.

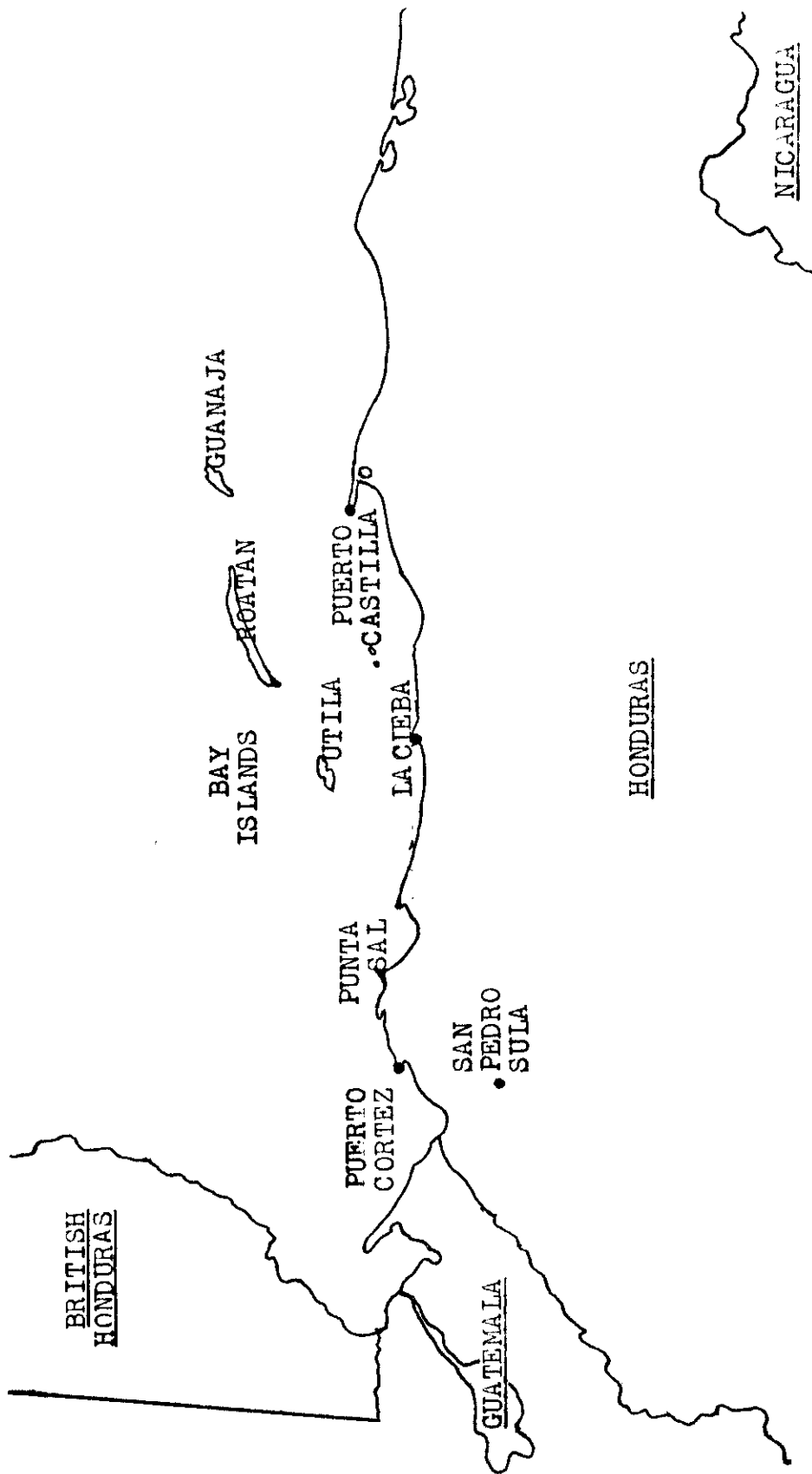


Fig. 2--Outline map of North Honduras, showing location of the study area.

The municipality of Santos Guardiola, the subject area of this study, is located on the eastern end of the island of Roatan, the central island of the three main islands in the Archipelago. The location of these islands is given in Figure Two, an outline map of the northern part of Honduras. Figure Three is a map of Santos Guardiola, the study area, and includes the location of the settlements on the eastern end of Roatan Island to include Oak Ridge and Jonesville, two of the urban centers on the island. The municipality of Roatan, on the western end of Roatan Island, is located in Figure Four, and the "down island" location of the other two urban centers, French Harbor and Coxen Hole, is also given.

Climate

The Bay Islands, located on the sixteenth parallel, have a tropical climate. Of the average annual rainfall of a little over one hundred inches, about two-thirds usually falls during the four wet-season months from October through January, although the exact duration, timing, and intensity of this wet period is erratic from year to year. The steep topography of the islands, and the resulting rapid run-off of water, along with the lack of natural catch-basins and the porosity of the soil, often mean drought conditions during the dry season in spite of the relatively high total annual rainfall. Winds are usually rather steady from the

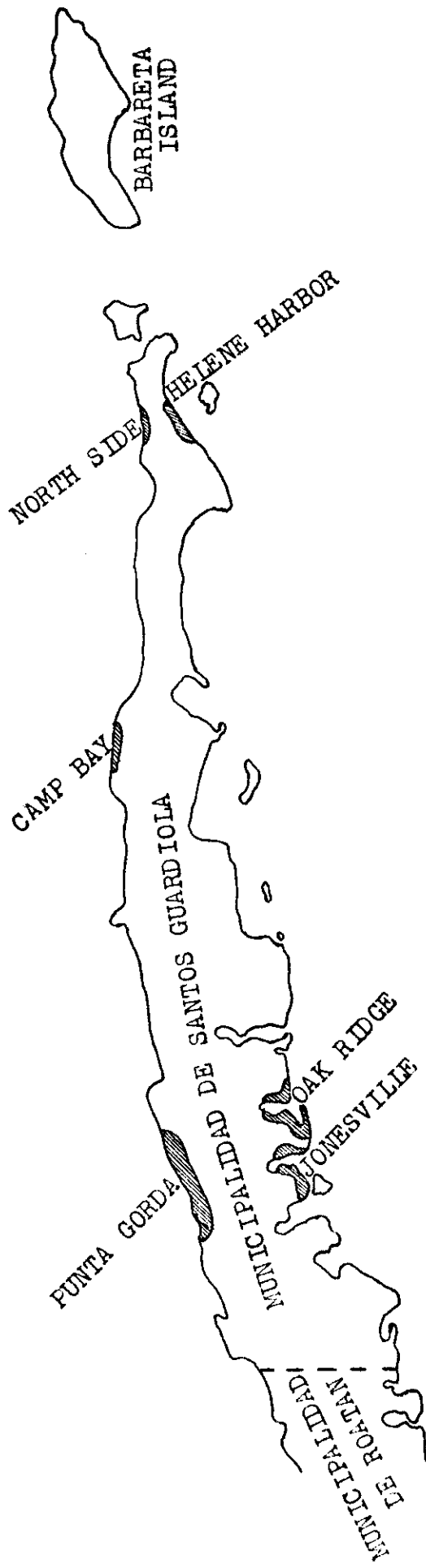


Fig. 3--Outline Map of the Santos Guardiola Municipality

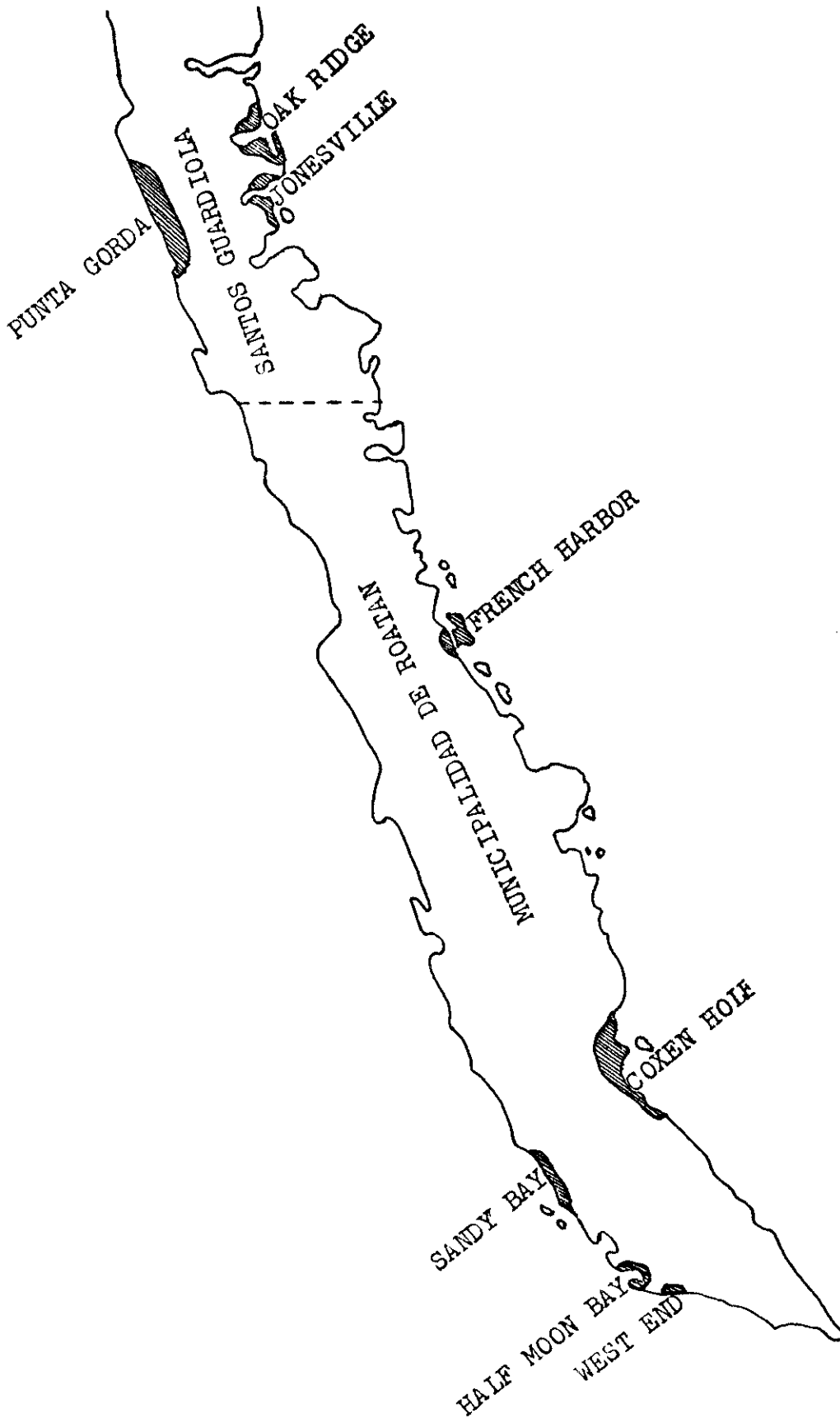


Fig. 4--Outline map of Roatan Municipality

east, almost along the axis of the island chain, but do shift enough to give both the north and south coasts of the islands some claim to the status of "windward" (and thus relatively mosquito-free) side. Hurricanes and other tropical storms are infrequent, but those that come generally are from the east. Ocean currents flow generally eastward past the islands, but during the winter, currents north of the islands tend to shift to a westward flow. Tides are small, with fluctuations of only around a foot and a half, and the water surface temperature is generally close to eighty degrees Fahrenheit. Air temperature on the islands also varies in a fairly narrow range around the eighties, with the mean monthly temperature of 77.7 degrees Fahrenheit for January and 84.1 degrees Fahrenheit for September.¹

Topography

The topography of the Bay Islands is typically hilly and rough, with the general ruggedness of the terrain increasing from the swamps and somewhat gentle slopes on the island of Utila in the west to the almost inhabitable slopes of Guanaja on the eastern end of the chain. The highest point in Utila, for instance, is a lone hill peaking at seventy-four meters elevation, while Roatan to the east has a peak

¹William V. Davidson, Historical Geography of the Bay Islands, Honduras: Anglo-Hispanic Conflict in the Western Caribbean (Birmingham, 1973).

with an elevation of 235 meters and is accompanied by other similar hills that run the length of the island and divide the terrain into rugged little pockets. Further to the east the island of Guanaja reaches an elevation of 415 meters with slopes so steep² that most of the population has been forced to inhabit filled-in coral reefs.

The island chain itself is a part of the Bancas Ridge, and is an extension of this ridge from Punta Sal, on the mainland (see Figure Two). The ridge, and thus the islands, lie just south of a geological fault that results from the confluence of two large continental "plates," with this confluence apparently causing both the ridge (and thus the islands) to the south of the fault and the Cayman Trough to its north.³

Santos Guardiola, typical of the rest of the islands, has an extensive barrier reef to its north with few openings and an extensive chain of beaches interrupted by large rock outcroppings that makes the north shore generally unsuitable for ports. The south coast, on the other hand, has a series of coral cays off-shore that offer protection but still permit convenient boat passage. The southern coastline itself is a

²Departamento de las Islas de la Bahía, 1:50,000 (Mapas Topograficos) (Tegucigalpa, 1967), Sheets 3064 III, 3065 II, and 3065 III.

³Paul Raymond Pinet, "Structural Development of the Northern Continental Margin of Honduras and the Adjacent Sea Floor, Northwestern Caribbean Sea," unpublished doctoral dissertation, Department of Oceanography, University of Rhode Island, Kingston, Rhode Island, 1972.

series of small, deep bays that offer additional protection (see Figure Three). Further inland, the main island structure consists of soft crumbly slate hills and outcroppings.

The vegetation in the past has varied from thick forests of pine and oak used in shipbuilding, to extensive cultivation of banana fields. The present vegetation in the island areas is characterized by heavy secondary growth on slopes that are evidently overgrown banana plantations, and areas of thick forests of various tropical trees. The inhabited areas against the shore contain mostly coconut palms and other vegetation such as fruit trees and small garden plots, while the uninhabited coastal areas are mostly coconut palm with scrub underbrush, or mangrove swamp.

Population

The pre-Columbian inhabitants of the Bay Island were of the Paya Indian group that were indigenous to the area between Trujillo and Cabo Gracias a Dios on the mainland. Columbus visited the Bay Islands on his fourth voyage (1502-1504) but little mention is made of the area.⁴

During later Spanish settlement of the Antilles and the Central American mainland, the Bay Islands, like most other easily accessible Indian populations, were treated as a source of slaves for the mines and agricultural projects of the Spanish. Continued slave raids caused a serious depopulation

⁴Davidson, op. cit., pp. 19-30.

of the islands, a trend that was later reversed with the Christianization of the islanders and the prohibition of slaving there. With the introduction of the semi-feudal Spanish economic unit, the encomienda, the Bay Islands took its place in the Spanish colonial structure as a supplier of foodstuffs and other products for the mainland.⁵

The development of trade and commerce between Spain and its new world colonies prompted the advent of the Caribbean pirate to prey on this trade. The English pirates were the most significant in the contest of the Spanish control of the Caribbean, and in conjunction with English military operations during times of war, they followed a pattern of raids and harassment that continued for almost three centuries, to the end of the colonial period. The strategic location of the Bay Islands astride the Spanish trade routes from Central America, the well protected and easily defended harbors on their southern side, and the presence of a population engaged in agriculture to supply provisions made the Bay Islands an ideal base for pirates. The Spanish realized this, and it led to the eventually successful Spanish attempt to depopulate the islands, resettle the inhabitants on the mainland, and thus deny the English access to provisions. The tactic was a success but the strategy a failure, as it only opened the door to English attempts at occupation and settlement of the islands and led

⁵Ibid., pp. 31-37.

to the ethnic patterns of the population seen in the islands today.⁶

The islands were then occupied at different times by English settlers from North America, settlers from England, and English refugees from other Caribbean areas. The islands were also evacuated at different times due to direct Spanish military threat, fear of a location isolated from English power, or through the various provisions of Spanish-English treaties. The first permanent inhabitants of the islands arrived in 1797 when the English marooned about 5,000 Black Caribs (a mixture of Carib Indians and escaped African slaves) that had been causing trouble and revolt on Saint Vincent in the Windward Islands. The Spanish saw this as an English threat and resettled most of them on the mainland, but some remained and settled in Punta Gorda on the north coast of Santos Guardiola.⁷ This location can be seen in the outline map of Santos Guardiola in Figure Three.

The collapse of the Spanish Empire in America saw the independence of Honduras and British recognition of its sovereignty over the Bay Islands, although this recognition seemed to be a matter of form only as the English continued their influence there. The elimination of slavery in the British West Indies in 1834 led to the two other migrations

⁶Ibid., pp. 40-46.

⁷Ibid., pp. 65-72.

that established the modern population of the Bay Islands, with both white former slave owners and black former slaves immigrating between 1830 and 1850. These two groups came mostly from the Cayman Islands looking for a place to settle, and they came in such large numbers that by 1858 almost half of the approximately 1,400 population of the Bay Islands were from the Caymans, with Negroes at that time far outnumbering the whites.⁸

Any recognition of Honduran sovereignty was repudiated by Great Britain in 1852, when it claimed the Bay Islands as a Crown Colony. This was the high point of British influence, but the claim was renounced in a treaty with Honduras in 1859, signed by Queen Victoria and Jose Santos Guardiola, the president of Honduras for whom the study area was named. Conditions had changed in the Caribbean, and Great Britain did not again exert its influence in the Bay Islands.

The modern population of the Bay Islands can be generally divided into four groups: the Black Caribs, the English whites, their English-speaking former slaves, and the small but growing community of Spanish-speaking inhabitants. Out of a present population in Santos Guardiola of 1,117 people⁹ roughly half are white and half Negro. The whites are the

⁸Ibid., pp. 75-78.

⁹Statement by Guillermo Dubon, manager of the census section, Dirreccion General de Estadisticas y Censos, Secreteria de Economia, citing preliminary figures from the March, 1974 general census, Tegucigalpa, Honduras, June, 1974.

only significant economic group in Santos Guardiola, but the mainland Spanish (not the small minority born and raised on the island) are a growing economic factor in Coxen Hole on the other end of the island, and in time their influences should also be felt in Santos Guardiola.

Transportation

The traditional method of transportation around Santos Guardiola has been by small dory, although this has been largely supplanted by truck-taxi for travel to the western end of the island, and by airplanes and coasted freighters for inter-island and mainland travel. The possession of one of these dories is similar to the possession of an automobile in American society, and the more thickly inhabited areas of Santos Guardiola around Oak Ridge and Jonesville have a fairly extensive net of canals that allow travel by small boat on inland or protected routes. The preponderance of these dories are dug-out canoes imported from the mainland and finished on the islands with caulking, paint, and a small diesel engine. These boats are still the dominant means of local transportation.

The development of an extensive road net of improved and graded (but unpaved) roads from one end of the island to the other practically eliminated the use of boats in travel to French Harbor, Coxen Hole and other settlements on the other end. Privately-owned trucks converted to passenger use now

give public transportation service to most points on the island on a rather erratic schedule and are available for private hire if the schedule is not satisfactory.

Most inter-island and mainland cargo movement is done by small coastal steamers stopping at Guanaja, Oak Ridge, Jonesville, French Harbor, Coxen Hole, and sometimes Utila, and then calling at mainland ports such as Puerto Cortez, Tela, La Cieba, or Trujillo. These cargo boats still carry some passengers but most people now travel by air.

There is an airport on each of the three main islands with daily connecting flights to the mainland. Plans for tourist development call for the construction of an international airport north of Oak Ridge to service tourist flights directly from North America and other Latin American countries.¹⁰

Economic Description and Data

The Bay Islands have essentially three industries: fishing (mostly shrimp fishing), local workers employed overseas for foreign wages, and an undeveloped tourist industry, the formerly all important banana industry having collapsed on the islands around the turn of the century. The government's long term industrial development plan leans mostly on

¹⁰Statement by Jacobo Goldstein, director of the National Institute of Tourism, Tegucigalpa, June, 1974.

tourism as a means of balancing out the present dependence on fishing and overseas employment in the Bay Islands.¹¹

The main thrust of the plan will be the generation of foreign trade on the national scale. The implementation of this plan will depend on three key concepts: the decentralization of industry from Tegucigalpa and San Pedro Sula, the development of tourism in Honduras, and the development of a series of free ports. This plan will effect the Bay Islands principally through the development of the tourist industry (as explained later) and the development of a free port. The proposed tariff laws permitting this will allow for a tariff-free retail area along the lines of free ports in other areas, and free trade zones for the manufacturing and processing of goods free of tariff for ultimate re-export. The main impact on the Bay Islands will probably be a retail-level free port to augment the tourist industry.¹²

The general condition of the economy is reviewed twice each year by the Central Bank in light of economic development projections, balance of payments, and other economic factors, with the object of promoting level expansion and dampening fluctuations in economic conditions. The reserve rate is the common tool for monetary policy, and presently is

¹¹Statement by Abraham Bennaton, Minister of Economics for the Republic of Honduras, Tegucigalpa, June 17, 1974.

¹²Statement by Augusto Coello, Assistant Minister of Economics for the Republic of Honduras, Tegucigalpa, June 17, 1974.

set at 28 per cent for most forms of deposits. The central bank discount rate to banks is 4 per cent for qualified industrial projects and 6 per cent for other approved commercial projects, and is used as a tool for central financial planning and control rather than control of the money supply. Open market operations by the Central Bank likewise are not a tool for control of the money supply, but are done in acting as agent for the national treasury only.¹³

Several development banks participate to a significant extent in the growth of Honduras, but they tend to be involved in the larger industrial projects, leaving the small businessman out of their direct financing pictures.

The Banco Interamericano de Desarrollo (Inter-American Development Bank) for instance usually is involved only in projects of over one million dollars, is not at all involved in small credit, and finances no projects in the Bay Islands.¹⁴

The Banco Nacional de Fomento (National Development Bank) makes loans to both large and small development projects, to include private industry and government infrastructure loans. Some loans are placed directly, but they are now being mostly

¹³Statement by Porfidio Zovala, General Manager of the Central Bank on Honduras, Tegucigalpa, June 17, 1974.

¹⁴Statement by Arturo Pino Navarro, Director of the Inter-American Development Bank in Honduras, Tegucigalpa, June, 1974.

placed indirectly through collectives or cooperatives. None are placed through private intermediaries. No loans have been placed in the Bay Islands.¹⁵

The Agency for International Development, the distribution and administrative arm of American foreign aid, seeks loans that need seed money to initiate a continuing and on-going project. None of this financing has been done in the Bay Islands, but the loan to the National Association of Credit Unions indirectly placed money there (see Chapter Five).¹⁶

Fomento Cooperative arranges loans directly to cooperatives that are not affiliated with one of the cooperative congresses established under the cooperative law of 1954. Fomento Cooperative is a semi-autonomous branch of the Ministry of Economics whose basic function is to make capital available to unaffiliated cooperatives. There can be planning, research, or evaluation help for these loans, but Fomento Cooperative acts only as an intermediary and not as a source of these funds, and does not guarantee the loans. Presently all money comes from private banks, but arrangements could be made from other sources. No loans are made in the Bay Islands, as the only cooperative there, the Santos Guardiola

¹⁵Statement by Dr. George St. Siegens, Consultant for the National Development Bank, Tegucigalpa, June 18, 1974.

¹⁶Statement by Robert Mathia, Assistant to the Director for AID Honduras, Tegucigalpa, June 14, 1974.

Credit Union is affiliated with the National Association of Credit Unions and thus not qualified for Fomento Cooperative funds.¹⁷

Fishing Industry.--The shrimp fishing industry has become the major employer for the Bay Islands, which catches, processes, and exports most of the Honduran shrimp. Ninety-five per cent of the Honduran catch is sold to the United States and the rest consumed in Honduras,¹⁸ although some preliminary success has been achieved in marketing shrimp in Japan and Europe.¹⁹ Of sixty-seven equipped fishing boats registered in Honduras in 1970, fifty-seven were from the Bay Islands. Of the total fleet, roughly one half were under seven years old and roughly one half (mostly the newer ones) were owned by Americans.²⁰ By the summer of 1974, the number of registered boats had increased to over 100, still mostly in the Bay Islands. If boats operating in Honduran waters without registration are included, estimates go as high as a total fleet of 170. The fishing banks were unpatrolled²¹ until

¹⁷Statement by Godofredo Siercke Quiros, Director of Fomento Cooperative, Tegucigalpa, June 17, 1974.

¹⁸Statement by Dr. Jan Johnson, Consultant to the Sub-Ministry of National Resources for Fish and Game, Tegucigalpa, June, 1974.

¹⁹Statement by Renaldo Canales, General Manager of Bancahsa branch in La Cieba, La Cieba, Honduras, June, 1974.

²⁰Gilberto Arturo Well Ramirez, La Pesca en Honduras (Tegucigalpa, 1970).

²¹U. S. Embassy, Unclassified Letter A-75, U. S. Department of State, Tegucigalpa, May 23, 1972.

1974, so foreign boats fished the Honduras banks at will and saved themselves the expense of official registration.

Out of five fisheries products plants in Honduras in 1972, three were located in the Bay Islands:²² two in Guanaja²³ and one in Oak Ridge,²⁴ although the plant in Oak Ridge was closed in 1973 to be reopened under new ownership in the 1974 season.²⁵

Although the year-to-year shrimp catch is erratic, it has been relatively constant since 1968, and biological studies tentatively indicate that the shrimping grounds are being fished to capacity. In fact, the long term sustainable level might have been exceeded by overfishing in recent years, and the delay in the legal opening of the 1974 season was an attempt to allow the small shrimp to grow to a larger size,²⁶ and limit the total catch to a biologically sustainable yield.²⁷

Informal reports from the early weeks of the season indicate that these measures were not sufficient, with several boats reporting catches insufficient to even pay for fuel. If continued over several seasons, this inability to produce income could have drastic effects on the quality of the loans

²²Ibid.

²³Johnson, op. cit.

²⁴Ibid.

²⁵Statement by Whitney Drucker, new owner (partnership) of the Oak Ridge processing plant, Oak Ridge, Islas de la Bajia, Honduras, June, 1974.

²⁶Johnson, op. cit.

²⁷U. S. Embassy, op. cit.

using the boats as security. In response to the good 1973 catch and the record high prices for all grades of shrimp on the international market, many boats were ordered by islanders for delivery in 1974. The subsequent sharp price drop for shrimp made many wish they had not ordered, and the poor catch anticipated for 1974 makes these decisions even more regrettable to both the owners and creditors.

Most of the new boats are steel hull of American manufacture, supplanting the long established boat building industry of the Bay Islands that had, by 1972, greatly diminished from historical levels²⁸ and had, by 1974, disappeared,²⁹ although repairs were still carried on at several yards.

Overseas Workers.--A major source of support for Santos Guardiola is the export of labor. Sometimes the major support and sometimes second to the shrimp industry, it takes up the slack when shrimp fishing is down. Unemployed shrimpers and others, at least among the white population, leave for jobs in shipping and offshore oil. This pattern was first set in the banana boom days when strong commercial ties were made with New Orleans. From short-haul banana boats, Bay Islanders

²⁸Roberto Matute Estevez, "Análisis de la Pesca Artesanal y Industrial en Honduras," Universidad Nacional Autónoma De Honduras, Tegucigalpa, 1972.

²⁹Statement by Thomas Garcia, owner of a drydock in Oak Ridge, Oak Ridge, Islas de la Bahía, Honduras, June, 1974.

spread out to international shipping, and to Louisiana and worldwide offshore oil exploration and servicing. Generally they are not ships' officers or oil company management, but enlist for a one or two year contract at some particular location as crew worker or foreman. These men also pay attention to any new job openings and usually know who, back in the Bay Islands, needs a job, and in an expanded form of nepotism take care of their friends. One oil worker, home on vacation after a job in Nigeria, stated that he knew thirty men from Oak Ridge and Jonesville alone that worked just in the sheikhdom of Dubai, where he was going next. The international oil crisis and the resulting pressure for exploration has caused something of a labor shortage in Santos Guardiola, and is expected to absorb surplus workers if the shrimping industry has the bad year that is anticipated.

Tourism.--The Bay Islands have the basic ingredients for what travel agents call the "tropical paradise," so it is difficult to see how they missed out on the American tourist boom of the 1960's. Tourism is already a relatively important industry in the Bay Islands, ranking probably third behind fishing and foreign employment, but nothing like its potential has been reached. What was lacking, of course, was the massive infusion of capital that would permit the destruction of the present island and its transformation into an extensive luxury "facility" indistinguishable from Acapulco, Honolulu, or Miami. One reason this unrestrained development did not

take place was that the present National Institute of Tourism must approve such projects and they do not plan this kind of future for the Bay Islands, although in fact they have not had any such proposals to turn down.³⁰

Probably of more significance are (1) the relative excess of first-rate resort capacity in other parts of the Caribbean and other competing tourist centers, (2) the recent tightened economic conditions in the United States and the subsequent decrease in American participation in tourism, and (3) the insecurity of land titles in Honduras and its restriction on foreign ownership in border and costal areas.

The first two factors are seen by the tourist institute as short-run problems that are beyond their control.³¹ The problem of land titles, however, is a matter of concern for the government and many of its agencies,³² so a joint pilot project has been funded by the Federal Government and the Agency for International Development to start a system of central land registry that will take perhaps a decade or longer for completion.³³ This is of concern to the

³⁰Goldstein, op. cit.

³¹Ibid.

³²U. S. Embassy, Enclosure 1 of Unclassified Letter A-84 U. S. Department of State, Tegucigalpa, 1974, p. 1.

³³Statement by Robert Shuler, Economic Officer, Department of State, Tegucigalpa, June 14, 1974.

Institute of Tourism, of course, because without secure title the foreign capital needed for tourist development is unlikely to be available to either buy land for these facilities or build them on leased land secured by cloudy titles. It might be expected that landowners would be enthusiastic supporters of this project. The general reaction in the Bay Islands, however, is negative, as it is seen not as a system to secure the titles of the present owners, but as a scheme to legitimize government expropriation.

The people of the Bay Islands and of Santos Guardiola are culturally, linguistically, racially, and economically isolated from mainland Honduras, and they simply do not trust their "alien" government to act in their behalf. An additional source of uncertainty for the foreigner investing in Honduran land is the prohibition of foreign ownership of land in coastal and border areas. This is a common restriction in Latin America, but foreigners get around it by land ownership through local corporations, a proxy arrangement, or a perpetual lease, all practiced in Honduras and all questionable as a guarantee of investment security.

The main thrust of the government development will go to three locations: further exploitation of the potential of the archaeological ruins at Copan, development of an Acapulco-type luxury resort at Punta Sal, and continued

development of the Bay Islands along the lines of the small resorts now there. While the Tourist Institute plans government ownership of the land and facilities in Copan and Punta Sal with long-term leasing to private developers and managers, on the Bay Islands they plan for government participation mainly in support for infrastructure projects such as improved roads, water projects, docks and channel dredging, and new airports, etc., leaving the actual tourist development projects in private hands. The projects must be approved, of course, by the government.³⁴

Agriculture.--Agriculture has, in the past, been a mainstay in the island economy. During much of the colonial period they supplied the mainland with food and, as pointed out earlier, served as a well-stocked staging area for raids on the Spanish mainland.

The ending of slavery in the British Empire and the closing of the Spanish rule of Central America saw not only the population of the Bay Islands with Englishmen and their former slaves from other West Indian islands, but also saw the birth in the Bay Islands of the long-lived Honduran banana boom.³⁵ Although Honduran bananas were at first

³⁴Goldstein, op. cit.

³⁵Davidson, op. cit.

exported only from the Bay Islands, small boats from the islands began to collect bunches from the mainland for the ships that docked at the islands. Eventually, the banana ships began to call on mainland ports, and the larger expanses of open land and cheaper labor found on the mainland switched the industry over to the mainland where the larger scale operations demanded by the expanding banana market could be supported.³⁶ From the peak year of 1912-1913 when over \$300,000 worth of bananas were exported from the Bay Islands, making up 5 per cent of the total export of Honduras, the island banana trade deteriorated and later collapsed in the early twentieth century.³⁷ However, the strong trade ties with the United States survived to see the development of the shrimp fishing industry and the export of shrimp instead of bananas to New Orleans.

Today agriculture is an almost expired economic force on the island; there are no significant agricultural exports to either foreign or mainland markets. The small farming operations that do exist are small-scale truck farms producing for local use, and even smaller-scale subsistence agriculture. In fact, considerable foodstuffs are now imported to the Bay Islands.

³⁶Ibid.

³⁷Ibid.

Summary

The Bay Islands are located off the north coast of Honduras and Santos Guardiola, the study area, is the eastern half of the middle island, Roatan. The people of the Bay Islands are English speaking, having come to the island when English influence was strong in the area. This ethnic background and the island's location isolate them from the mainland.

The islands themselves are covered with rugged hills and surrounded by coral reefs, although the passages and small bays on the south side permit excellent, well-protected anchorage. These are tropical islands with tropical vegetation, high temperature, and annual wet and dry seasons.

There are three industries on the islands: shrimp fishing, working abroad, and a crude and undeveloped form of tourism. Although the Honduran banana industry started in the Bay Islands, agriculture as an industry no longer exists there.

CHAPTER IV

EDUCATION AND THE SMALL BUSINESSMAN

The education of the people of the Bay Islands, its businessmen included, has been hampered by its physical and cultural isolation from the rest of Honduras. In response to relatively close cultural (and occasionally familial) ties with the United States, many of the families that can afford it send their children to America for education beyond the level available on the islands.

It is general knowledge that position in life, salary, status, wealth, etc., are usually corollaries of the education level achieved. This chapter presents data that demonstrates that in Santos Guardiola the level of education achieved is a factor in the amount of credit available.

The Educational System in Honduras

Honduras, like most other countries, has laws requiring universal education for children. Honduras requires attendance through the sixth grade, the basic level. Requirements or not, this simply is not done; children drop from school earlier than this, and illiteracy is still a wide-spread

problem.¹ A major reason is simply that laws are easier to make than schools. Schools, teachers, and the money for them are simply not available in the right places in sufficient numbers.²

After the first six years, the student may continue for three more years in a school more or less equivalent to the American high school. Although not nearly as comprehensive as a United States school, the Honduran secondary school does have faculty that teach specialized subjects and have received specialized training such as math, history, etc.³ After the ninth grade, the student can continue his education by three different routes: (1) he can qualify for teaching by completing a three-year curriculum to teach in the basic grades or a four-year curriculum to teach in secondary school, (2) he can qualify as a perito mercantil (bookkeeper) with a three-year course, or (3) he can take a two-year course to prepare for the University.⁴

Education in Santos Guardiola

The entire Bay Islands Department has 2,488 registered basic-level students; the Santos Guardiola Municipality has

¹Statement by Anthony Cauterucci, Education Officer, Agency for International Development, Tegucigalpa, June, 1974.

²Ibid.

³Statement by Jose Carleton Corrales, Director of the Escuela Superior de Profesorada, Tegucigalpa, June, 1974.

⁴Ibid.

only 148 of these, taught by four teachers. The Honduran Ministry of Education in Tegucigalpa has no record of a private school here, although they have the responsibility to oversee and standardize curriculum for all basic and secondary schools (all schools without grants of autonomy) in Honduras.⁵

Honduran law requires that all classes be taught in Spanish, except by special permission so far given only to foreign embassy schools.⁶ This law is rarely enforced.

The people of Santos Guardiola, being mainly of English speaking stock, have operated an English-speaking school for many years. A new expanded school for about fifty students has recently been completed in Oak Ridge by the local Baptist congregation, and a teacher has been hired. Nevertheless, whether in English or Spanish, most islanders are now educated through the sixth grade. An examination of the "total" column of Table I will show around two-thirds of the businessmen in Santos Guardiola to be in this category.

The schools in the Bay Islands used to go only through the fourth grade, so the 10 per cent of the businessmen shown with only a fourth-grade education do not reflect

⁵Statement by Celan David Galeano, Sub-Secretary for Integral Educational Planning, Ministry of Education, Tegucigalpa, Honduras, June, 1974.

⁶Cauterucci, op. cit.

early dropouts, but rather old age, these people having grown up in a time when the fourth grade was the highest level offered locally.

For those wanting to continue their education after the sixth grade but still remain on the Bay Islands, the Islands have only one secondary school: Instituto Honduras, located in Santos Guardiola in Jonesville, with twenty-eight students and six teachers.⁷ It is common, however, to send children to the United States and sometimes England for their high school education.

Most of the individuals in business in Santos Guardiola who completed the twelfth grade did so in the United States, and all of the businessmen with university degrees got them in the United States.

Educational Level of Credit Grantors

People that sit on loan committees or have individual authority to make loans or other authority to approve credit in Santos Guardiola usually have obtained a level of education that is proportionate to the size of their loan authority. Since loan authority increases with increased position and status, this generally confirms the almost universally held relationship between educational level and social or professional position.

⁷Galeano, op. cit.

Financiera Hondurena.--The seven members of the board of directors of Financiera Hondurena, who must collectively approve loans of over 50,000 limperas, hold two masters degrees, one bachelors degree, two associate degrees (both perito mercantil, or bookkeeper), and two secondary school degrees. The president and chairman of the board, Gabriel Mejia, holds one of the associate degrees, there is one MBA degree from Boston College, a Master of Business Science from the University of California, and a Bachelor of Science degree in Administration from Stanford University.⁸

Loans of less than 50,000 limperas can be authorized by agreement between the president and the general manager, the general manager having a degree in economics from the University of Honduras.⁹

Loans of less than 25,000 limperas can be approved by local managers. The local manager in La Cieba, where the smaller loans would be approved for the Bay Islands, also holds a degree from the University of Honduras, a professional degree in secretarial science.¹⁰

Banco Atlantida.--This bank maintains an agent with a secondary school degree in Guanaja with authority to make

⁸Statement by Hernando Elvir, General Manager of Banco Financiera Hondurena, San Pedro Sula, Honduras, June, 1974.

⁹Ibid.

¹⁰Ibid.

small personal loans, but he does not make commercial loans and does not have any accounts from Santos Guardiola on the neighboring island.¹¹

Virtually all of the local loan officers and members of loan committees have degrees in economics, business, or law, and most of the degrees are from the University of Honduras. The zone offices (such as La Cieba, where islanders would get a loan) have authority to grant up to one-half million limperas credit. The president of the bank, with a doctorate, approves larger loans with the help of his loan committee.¹²

Bancahsa.--Another major bank operating in the Bay Islands, Banco Capitalizadora Hondureno (Bancahsa) maintains a small agency on each of the three islands. The agent in Guanaja, with a perito mercantil degree, has authority to lend up to one thousand limperas, the agent in Ustilla with a secondary school degree can grant loans to one thousand limperas, and the manager in Coxen Hole, also with a degree from a secondary school, can grant loans to 2,500 limperas. In addition, an agency is maintained in French Harbor and Oak Ridge without authority to make loans.

¹¹Statement by Dr. Paul Vinelli, President of Banco Atlantida, Tegucigalpa, Honduras, June, 1974.

¹²Ibid.

The Bancahsa regional branch in La Cieba has a manager with a perito mercantil degree and authority to grant loans up to thirty thousand limperas. Larger loans go for approval to the central office in Tegucigalpa.¹³

Credit Union.--The appearance of someone with a university degree on the loan committee of a local credit union is rare in Honduras, although teachers with professional degrees fairly commonly serve on these committees.¹⁴ In Santos Guardiola the loan committee of the credit union consists of three members who finished the sixth grade, one who finished the tenth, and one (the president) who finished the twelfth.¹⁵ There are no absolute limits on the size of a loan that can be granted by the committee, there are only practical considerations that limit loans to a small part (roughly 5 per cent) of total credit union assets.¹⁶

¹³Statement by Renaldo Canales, General Manager of Bancahsa branch in La Cieba, La Cieba, Honduras, June, 1974.

¹⁴Statement by Arnoldo Guiza, General Manager of FACACH (Honduran Association of Credit Unions), Tegucigalpa, Honduras, June, 1974.

¹⁵Records of the Santos Guardiola Credit Union, Oak Ridge, Santos Guardiola, Islas de la Bahia, Honduras, June, 1974.

¹⁶Statement by Goldie Cooper, Manager of the Santos Guardiola Credit Union and a member of the board of directors of the National Association of Credit Unions, Oak Ridge, Honduras, June, 1974.

The Educational Level of Businessmen
in Santos Guardiola

The general population of the Bay Islands, of course, has only limited opportunity for education. Although Santos Guardiola is fortunate in having the only secondary school on the islands, in Jonesville, the common level of education now obtained there is graduation from the basic curriculum, through sixth grade. This study has divided all business borrowers into four occupational classes because most businessmen in Santos Guardiola work as fishermen, merchants, or farmers. There are no other occupations well enough represented to justify separate treatment, so the remainder are considered as "other."

An examination of Table I will show that each of the occupational areas listed have over one half of their members finishing the sixth grade,¹⁷ with farmers showing a rather distinct tendency for lower education, and the "other" category showing a distinct tendency for higher education¹⁸ (due principally to the five members with college degrees, all from colleges in the United States).

It was also found that in Santos Guardiola, higher levels of education of businessmen corresponded with larger

¹⁷Santos Guardiola Credit Union, op. cit.

¹⁸Cooper, op. cit.

business credit, except for college graduates whose average business credit is well below the two next lower classes.

TABLE I
EDUCATIONAL LEVEL BY OCCUPATION

Years of Education Completed	Occupation				Total
	Fisherman	Merchant	Farmer	Other	
0-4	0	2	5	2	9
4-6	24	14	8	14	60
6-8	6	3	0	1	10
8-10	3	1	0	1	5
10-12	4	1	0	2	7
12-16	2	1	0	5	8
Total	39	22	13	25	99

Table II demonstrates this connection between education and credit, showing that those businessmen with a fourth-grade education or less average less than a thousand limperas of credit outstanding, while those with an eleventh or twelfth-grade education average over eighty thousand limperas of credit. It can be seen, however, that when the level of education climbs to a college degree the average credit outstanding drops sharply to a level a little under twenty thousand limperas.¹⁹

¹⁹Records of the Santos Guardiola Credit Union, op. cit.

TABLE II
EDUCATIONAL LEVEL BY CREDIT IN USE

Years of Education Completed	Number in Class	Total Credit (in Limperas) of Each Class	Average Credit (in Limperas) of Each Class
0-4	9	7,063	875
4-6	60	554,360	9,239
6-8	10	136,134	13,613
8-10	5	134,500	26,900
10-12	7	573,049	81,864
12-16	8	154,517	19,315
Total	99	1,560,623	15,764

Table III shows somewhat the same relationship between the amount of education attained and assets pledged by local businessmen as security for their loans. As expected, it is found that a larger asset requires larger security.²⁰ If the "average assets" column in Table III and the "average credit" column in Table II are compared, it is found that the ratio between the assets standing behind a loan and the loan itself generally decreases as level of education increases. This, in effect, means that the lesser educated must pledge a larger proportion of security for their loan

²⁰Ibid.

than the better educated. Those with a fourth-grade education or less put up, on the average, security valued at 4.6 times the amount of their loan while those with an eleventh- or twelfth-grade education secure their loans only 1.4 times.

TABLE III
EDUCATIONAL LEVEL BY ASSETS

Years of Education Completed	Number in Class	Total Assets (in Limperas) of Each Class	Average Assets (in Limperas) of Each Class
0-4	9	36,474	4,053
4-6	60	1,778,704	29,645
6-8	10	188,243	18,824
8-10	5	403,000	80,600
10-12	7	775,514	110,788
12-16	8	335,580	44,447
Total	99	3,537,515	35,732

This ratio drops steadily between these two examples with the exception of those with a seventh- or eighth-grade education, in which case the loan coverage drops to 1.4 times the value of the loan, well below the 3.2 of the educational level below it and the 2.9 of the educational level above it. Above the twelfth-grade level, the college degree again breaks the trend with a coverage ratio of 2.3, meaning they pledge a higher multiple of the loan amount as security than the

educational level immediately beneath them (which pledges security valued at 1.4 times the value of the loan, as explained above).

The smaller size of loans and assets pledged against these loans by those with a college education can be explained by the fact that these people generally do not need loans. Most of them are foreigners who brought sufficient capital with them to fund their business.

Businessmen's Comprehension of Various Principles of Credit and Finance

Interviews were conducted with sixteen local businessmen in order to ascertain their understanding of the principles of credit and finance listed in Table IV. Of these sixteen, seven were fishermen, one was a merchant, one was a nurse, one was a land developer, and the others were managers of a drydock, a marine engine repair shop, a marine radio repair shop, a restaurant, and two resorts. For the most part, comprehension of these principles did not seem to be a function of occupation. Understanding of these terms decreased as their general level of sophistication increased (from top of table to bottom), but this general decrease bore no occupational pattern. In addition, although four of the sixteen (but none of the seven fishermen) were women, the general level of understanding did not bear any discernable relationship to sex. There was, however, a general

decrease in the comprehension of the more sophisticated principles among those with less formal education, while those with more education tend to understand all except the more technical principles of present value and net present value. Only two of the sixteen businessmen demonstrated any comprehension of these two principles, one had completed the tenth grade and the other the twelfth grade.

TABLE IV
BUSINESSMEN'S COMPREHENSION OF VARIOUS
PRINCIPLES OF CREDIT AND FINANCE

<u>Subject</u>	<u>Number (out of sixteen) Expressing Comprehension of Subject</u>
Interest	16
Collateral	16
Payback Period	16
Compound Interest	11
Cost of Capital	11
Fixed and Variable Costs	9
Financial Leverage	8
Present Value	2
Net Present Value	2

Even these two were not familiar with the terminology and had never seen nor heard of a present value table. Both were able to explain how they had arrived at capital budgeting decisions in their business using the net present value

technique by working backwards on a crude compound interest table they had each derived.

The concept of paying interest on a loan, the principle of pledging some form of collateral as security for a loan, and the idea of evaluating an investment by determining the time it is expected to take to pay the investor back his money were understood by each of the sixteen businessmen interviewed. The concept of annually compounded interest was understood by only eleven of those interviewed.

The test for understanding the principle of cost of capital was simply recognizing that capital does have a cost. Since all sixteen recognized the cost of borrowing, the test actually only discriminates between those who thought that equity capital was free and those that recognized the opportunity cost inherent in the capital of ownership. Eleven of those interviewed recognized such costs.

Nine of the subjects recognized a fixed and a variable component to costs. They recognized, for instance, that if sales were cut sharply, some expenses (variable costs) could be cut also, while others (fixed costs) would remain the same, and that if the shrimp catch were drastically lower, some cost (interest, fuel, maintenance, etc.) would be fixed and some (crew compensation) would decrease.

The test for comprehension of financial leverage consisted of simply recognizing that if borrowed capital is

added to equity capital to get the total return higher than the interest rate paid on the borrowed part, then the return on equity will be higher than could have been obtained using equity alone. Only one half of those interviewed demonstrated this understanding, although virtually all of them demonstrated awareness of the risk of leverage. The simple awareness of the risk was not accepted as a demonstration of the comprehension of the principles involved in the creation of this risk.

An examination of the content of the standard curriculum of the lower level Honduran schools that was discussed earlier showed no explicit treatment of the areas of credit and finance other than arithmetic problems dealing with interest rates and compound interest. After the first nine years of study, of course, a student specializing in book-keeping (perito mercantil) will get a heavy concentration in this area while a student in the three-year primary teacher curriculum or the two-year university preparation curriculum will continue to get almost none.²¹

As none of the businessmen interviewed had studied as bookkeeper, it can be presumed that the knowledge of credit and finance outlined in Table IV was obtained in experience outside of their formal education.

²¹Corrales, op. cit.

Summary

Santos Guardiola and the rest of the Bay Islands, being both physically and culturally isolated from the rest of Honduras, have lacked the advantage of proximity to secondary and higher schools. The Bay Islands do have one school going through the ninth grade in Santos Guardiola, but it is not heavily used. Many of the children are sent to the United States for education after the sixth grade.

For those giving credit, a higher education tends to go with authority to lend larger amounts of money. For those receiving credit, a higher education tends to go with ability to get more credit.

There is a positive relationship between level of education and comprehension of several selected principles of credit, although there seems to be no discernable relationship between comprehension of these principles, and the occupation or sex of the subject.

CHAPTER V

CONDITIONS OF CREDIT IN SANTOS GUARDIOLA

The purpose of this chapter is to give an account for the sources and uses of commercial credit in Santos Guardiola and to describe the credit institutions that lend money and the industries, companies, and individuals that use it. Since Santos Guardiola is a rather small municipality it is served by only four credit institutions: Banco Capitalizadora Hondurena, Financiera Hondurena, Banco Atlantida, and the local credit union. By far the largest user of credit in Santos Guardiola is the fishing industry, followed by merchandising, farming, and miscellaneous other occupations.

Bancahsa

Banco Capitalizadora Hondureno (BANCAHSA) underwent an internal reorganization in September, 1968, that decentralized much authority (including loan authority) from Tegucigalpa, and in the process a branch at La Cieba was established in October of that year. At that time the Bay Islands had no bank located there, although several islanders had accounts on the mainland and engaged loans, savings programs and other banking services there. The growth of these accounts

and increased interest in the growing economy on the islands during the following year persuaded Bancahsa headquarters in Tegucigalpa to open an agency in Coxen Hole with the local manager authorized to lend up to 2,500 Limperas.¹ In 1971, in response to competition from the Santo Guardiola Credit Union,² Bancahsa established a window in Oak Ridge to accept deposits and cash checks. The manager was not given (and does not now have) the authority to grant credit.³

Also in 1971, the control of the offices in the Bay Islands were transferred from the central control of the Tegucigalpa headquarters to the La Cieba branch. In June, 1974, the Santos Guardiola district accounted for thirteen commercial loans with Bancahsa, totaling almost a million limperas and secured by around a million and a quarter limperas worth of fishing boats and related equipment. All commercial Bancahsa loans in Santos Guardiola are to the fishing industry for between 75 and 80 per cent of assessed value of the security, at 9 per cent annual interest, for terms of four to six years. All of the thirteen loans currently outstanding were made in late 1973, or early 1974

¹Statement by Renaldo Canales, General Manager of Bancahsa branch in La Cieba, La Cieba, Honduras, June, 1974.

²Statement by Goldie Cooper, Manager of the Santo Guardiola Credit Union and member of board of directors of the National Association of Credit Unions, Oak Ridge, Honduras, June, 1974.

³Canales, op. cit.

(since the last shrimping season), and none have begun to pay off. In addition to the loans mentioned, Bancahsa also has a loan of 700,000 limperas outstanding to Hybur, S. A.⁴ (a large fishing corporation) that is clearly outside the limits of a study of credit to small businessmen. Table V outlines the distribution of these loans by size. It can be seen by comparison with the credit union that Bancahsa does not compete for the small loans to fishermen, having only two loans below ten thousand limperas as opposed to the credit union's seventeen loans of this size. In addition, an inspection of Table VI will show that Bancahsa's average loan to fishermen in Santos Guardiola (excluding the fourteenth loan to Hybur, S. A.) is for 75,850 limperas as opposed to credit union's 15,475. This is even more pronounced when the size of the average commercial loan to all occupations is examined. Since most of the credit union's commercial loans are smaller than the average loan to fishermen, their average loan to all occupations is of course smaller; 9,700 limperas. Although Bancahsa does have a larger amount of money in commercial loans outstanding in Santos Guardiola than any of the other credit institutions⁵ it is split among only

⁴Canales, op. cit.

⁵Credit records of the La Cieba branch of Bancahsa, La Cieba, Honduras, June, 1974.

TABLE V
SIZE DISTRIBUTION OF CREDIT FOR FISHERMEN BY CREDIT SOURCE

Loan Size Thousands of Limperas	Credit Union		Bancahsa		Finceria Hondurena		Total	
	Number in Class	Total Credit (in Limperas) in Each Class	Number in Class	Total Credit (in Limperas) in Each Class	Number in Class	Total Credit (in Limperas) in Each Class	Number in Class	Total Credit (in Limperas) in Each Class
0	4	0	0	0	0	0	4	0
0-10	17	94,358	2	15,000	0	0	19	100,000
10-20	8	105,146	1	18,000	0	0	9	123,146
20-30	4	90,326	5	120,000	0	0	9	210,320
30-40	2	84,709	0	0	0	0	2	84,707
40-50	2	90,000	1	44,000	0	0	3	89,000
50 and over	2	139,000	4	786,000	2	200,000	8	1,179,250
Total	39	603,539	13	986,000	2	200,000	51*	1,786,531
Average		15,475		75,850		100,000		35,030

*Both of the Finceria Hondurena accounts and one of the Bancahsa accounts are also accounts with the credit union, so the total is 51 instead of 54.

thirteen accounts as opposed to the credit union's ninety-nine (Table VII).

TABLE VI
AVERAGE BUSINESS LOAN (IN LIMPERAS) BY SOURCE AND OCCUPATION

Credit Source	Occupation				Average of Total
	Fisherman	Merchant	Farmer	Other	
Credit Union	15,475	5,562	4,286	7,160	9,700
Bancahsa	75,850	0	0	0	75,850
Financiera Hondurena	100,000	0	0	0	100,000
Banco Atlantida	0	0	0	100,000	100,000
Average of Total	33,084	5,562	4,286	10,731	19,878

Although Bancahsa lends heavily to the fishing industry in the Bay Islands and along the mainland coast, the total outstanding to the industry is only a small part of total loans. In addition, the shrimp export, which in the past went almost exclusively to New Orleans, is also being exported to Europe and Japan, decreasing market risk.⁶

⁶Canales, op. cit.

TABLE VII
TOTAL BUSINESS LOANS (IN LIMPERAS) BY SOURCE AND OCCUPATION

Credit Source	Occupation				Total
	Fisherman	Merchant	Farmer	Other	
Credit Union	603,539	122,000	55,713	179,008	960,260
Bancahsa	986,000	0	0	0	986,000
Financiera Hondurena	200,000	0	0	0	200,000
Banco Atlantida	0	0	0	100,000	100,000
Total	1,789,539	122,000	55,713	279,008	2,246,260

Financiera Hondurena

The financiera is a general type of Latin American financial institution that is roughly equivalent to the venture capital firm in the United States. The particular form it takes varies from country to country, but in general it remains an investment company that participates in a wide range of risk financing; equity or debt, large companies and small, public or private securities.

Financiera Hondurena was patterned after the well developed Mexican financiera system, and was originally organized with seed capital from the agency for International Development, with the intent of creating new sources of

capital outside of the traditional oligarchy of families that rules the capital market in Honduras.⁷

In 1968, however, a federal law did away with special banks, and all banks had to become general banks which must seek special government permission to make equity investments. Consequently, there is now very little equity participation by Financiera Hondurena, and new equity participation is counter to the bank's general policy. Most of the money is out as capital loans, averaging in size around 80,000 limperas for a term of three to five years, 80 per cent to industrial concerns and 15 per cent to agricultural concerns. At the present time Honduras has no venture capital company.⁸

Financiera Hondurena is actually fairly heavily invested in Santos Guardiola as it has one year left on a six year 60,000 limperas loan to Mariscos Hybur S. A. (the fishing company that has the 700,000 limpera Bancahsa loan mentioned earlier). They are also participating with Banco Centroamericano de Integracion Economico in an additional 150,000 limperas loan to Hybur, and a 200,000 limpera loan to Allen Hyde, one of the two owners of Hybur. While the size of Mariscos Hybur, S. A. places it beyond the scope of this

⁷Statement by Allan O. Paredes, Assistant Manager, Banco Financiera Hondurena, San Pedro Sula, Honduras, June, 1974.

⁸Paredes, op. cit.

study, one of the two financiera loans that do fall within the scope, 100,000 limperas for five years to William Elwin, is countersigned by Allen Hyde and Sam Burdek, owners of Hybur. The other, also for 100,000 limperas for five years, is to William Elwin's son Jensen, and is countersigned by Bancahsa.⁹

Banco Atlantida

Banco Atlantida, formerly a regional bank in the coastal department of Atlantida that lies next to the Bay Islands, is now expanded with branches throughout Honduras and headquarters in Tegucigalpa. In spite of their proximity to the Bay Islands, however, they have not moved aggressively to establish offices on the islands or to expand their credit available to islanders, although there are plans to do so in the future as the economic potential for the islands unfolds.¹⁰

The one office which has been established on the islands in on Guanaja (the island east of Roatan) and primarily services the credit needs of the fishing and real estate development industries.¹¹ The fifty customers that Atlantida does have on the islands deposit three-quarters of a million

⁹Credit records of Banco Financiera Hondurena, San Pedro Sula, Honduras, June, 1974.

¹⁰Statement by Rolando Funes, General Manager of Banco Atlantida branch in La Cieba, La Cieba, Honduras, June, 1974.

¹¹Statement by Dr. Paul Vinilli, President of Banco Atlantida, Tegucigalpa, Honduras, June, 1974.

limperas and borrow one half million limperas with about 10 per cent of the loans going to merchants, about 40 per cent to fishing and seafood industry, and around 50 per cent to real estate development. In the Santos Guardiola municipality, however, Atlantida has only three commercial loans outstanding, all to real estate developers and all being paid off as scheduled. Dee Beveal, owner of Spyglass Hill resort and Bill Kepler, owner of the Reef House resort, each have 9 per cent three-year loans that will be retired a few months after this study. These loans were not included in Atlantida's total credit computation in Table VIII.¹² The third loan, however, has only recently been extended to Roy Anderson, owner of the Port Royal Corporation, to develop tourist cottages on a beach near Camp Bay. It is a 9 per cent, ten-year loan for 100,000 limperas, and is included in Table VIII.

Although Atlantida knows that Bancahsa gives chattel mortgages on fishing boats, Atlantida is reluctant to increase loan exposure on similar security, as they feel that boats can be too easily stolen or sunk.¹³

¹² Funes, op. cit.

¹³ Ibid.

TABLE VIII

SIZE DISTRIBUTION OF CREDIT (IN LIMPERAS) BY SOURCE
(OCCUPATIONS OTHER THAN FISHING, MERCHANDISING,
OR FARMING)

Loan Size Thousands of Limperas	Credit Union		Banco Atlantida		Total	
	Number in Class	Total Cr. in Each Class	Number in Class	Total Cr. in Each Class	Number in Class	Total Cr. in Each Class
0	3	0	0	0	3	0
0-5	12	23,715	0	0	12	23,715
5-10	4	31,293	0	0	4	31,293
10-15	4	42,000	0	0	4	42,000
15-20	0	0	0	0	0	0
20 and over	2	82,144	1	100,000	2*	182,144
Total	25	179,008	1	100,000	25	279,008
Average	7,160		100,000		11,160	

*The Banco Atlantida account is also a credit union account with over 20,000 limperas outstanding, so the total is 2 instead of 3 in this class.

Santos Guardiola Credit Union

The Santos Guardiola Credit Union was organized in June, 1966, with sixty-nine members and total savings of slightly over seventeen thousand limperas. By April, 1974, membership had increased to 682 active members and savings had grown to over one million limperas (Table IX). A comparison of the total number of borrowers from the island's credit institutions found in Table V and VIII shows that the credit union is still by far the most widespread and popular source of

TABLE IX
CREDIT UNION GROWTH: 1966-1974

Date	Number of Members	Savings	Loans	Total Assets
7/1966	69	14,866	1,100	17,436
1/1967	218	27,171	24,303	32,182
6/1967	241	37,336	27,036	45,499
1/1968	268	52,584	40,771	62,542
6/1968	300	82,347	70,759	90,704
1/1969	342	155,478	125,391	167,146
6/1969	378	. . .	193,305	218,634
1/1970	435	296,520	298,264	329,992
6/1970	481	335,755	337,051	379,342
1/1971	527	336,991	428,562	441,076
6/1971	552	428,512	545,779	613,511
1/1972	583	557,492	674,419	751,284
6/1972	608	688,111	914,232	1,025,974
1/1973	637	746,214	1,078,603	1,175,898
6/1973	655	886,836	1,233,232	1,334,991
1/1974	675	988,682	1,206,947	1,295,037
4/1974	682	1,069,285	1,323,731	1,419,030

credit in Santos Guardiola, and close to the largest in total volume.¹⁴ The presence of 682 active accounts (867 counting inactive accounts), among the total population of 1,117¹⁵ substantuates the credit union manager's claim that almost every adult has belonged to the credit union.¹⁶

Table IX outlines this growth.

While an early purpose of credit unions in Honduras was to finance consumer loans, this has been downplayed recently by the national association so that there are now almost no new consumer loans being made.¹⁷ The emphasis is now on loans to commerce,¹⁸ with the credit unions as a source of capital for small industrial development.¹⁹ In fact, the Santos Guardiola Credit Union now grants a large number of its loans and an even larger proportion of its total loan

¹⁴Records of the Santos Guardiola Credit Union, Oak Ridge, Islas de la Bahia, Honduras, June, 1974.

¹⁵Statement by Guillermo Dubon, manager of the census section, Direccion General de Estadisticas y Censos, Sereteria de Economia, citing preliminary figures from the March, 1974, Central Census, Tegucigalpa, Honduras, June, 1974.

¹⁶Cooper, op. cit.

¹⁷Ibid.

¹⁸Statement by Ricardo Mejia, President of the Honduras National Association of Credit Unions, La Cieba, Honduras, June, 1974.

¹⁹Statement by Arnaldo Guiza, General Manager of the Honduran National Association of Credit Unions, Tegucigalpa, Honduras, June, 1974.

value to the shrimp fishing industry, the major local industry.²⁰

A further examination of Table IX will show the strong growth of the Santos Guardiola Credit Union since its founding. The growth in membership from sixty-nine to 682 during an eight year period represents an annual growth in membership of over 30 per cent, and the growth in savings from roughly fifteen thousand limperas to slightly over one million limperas during the same period indicates an even greater annual growth rate in savings of over 70 per cent. The Honduran Association of Credit Unions, although a private organization, acts as a semi-official agency in administering national credit union policy, and is able to exert pressure for a certain policy mainly by withholding credit from local unions that need outside credit.²¹ The national association itself gets extra funds from external borrowing, and as of June, 1974, had a total of 6,500,000 limperas of such loans outstanding at 6 per cent, 4,000,000 limperas from Germany,²² 1,000,000 limperas from the Honduran government through the Banco Nacional de Fomento, and 1,500,000 limperas indirectly through the Agency for International Development.²³ These

²⁰Cooper, op. cit.

²¹Mejia, op. cit.

²²Mejia, op. cit.

²³Jorge Nery Chinchilla, El Cooperativismo en Honduras: Instrumentos de Desarrollo Economico y Social (Tegucigalpa, 1970), p. 90.

exterior loans permit the association to reloan to its members more than just the excess savings of its more liquid members; and in fact by comparing savings with total assets in Table IX one can see that the Santos Guardiola Credit Union has been a borrower of these funds since its inception. Loans from these exterior sources as well as loans between members are presently made to member unions at 9 per cent.

The 1954 law establishing tax free status for credit unions also provided for the National Association of Credit Unions and more uniform standards of organization and accounting for its local unions. It was hoped that the establishment of a strong chain of credit unions would not only serve as an agent of capital concentration,²⁴ but could also serve the social purpose of involving more people in investment in the economy.²⁵ The national association is careful never to lend a local member union more than its total deposits so that the local committee will never lose the feeling of dealing with their own (and their associates) money. In fact, loan levels are kept well below this limit,²⁶ and it can be seen from inspection of Table IX that in the case of the Santos Guardiola union such loans from the national committee usually average 20 to 30 per cent of savings.

²⁴Ibid.

²⁵Marcial Solis, El Cooperativismo en el Desarrollo Economico de Honduras (Tegucigalpa, 1960), pp. 7-16.

²⁶Guiza, op. cit.

An examination of Tables X, XI, XII, and XIII will show the source and nature of these savings. Table X, for example, demonstrates the dominance of the fishing industry in the local economy by showing that not only are there more fishermen than any other profession, but the average savings of the fisherman is larger than the average of non-fishermen. Thus, fishermen are the source of the bulk (roughly 60 per cent) of savings by businessmen, and a large part (roughly 30 per cent of total savings by all credit union members.²⁷

TABLE X
SIZE DISTRIBUTION OF FISHERMEN'S SAVINGS ACCOUNTS

Savings in Thousands of Limperas	Number in Class	Total Savings (in Limperas) in Each Class	Average Savings (in Limperas) in Each Class
0-2	8	9,758	1,219
2-4	4	12,482	3,120
4-6	5	21,474	4,295
6-8	8	56,098	7,012
8-10	3	25,195	8,398
10-12	4	44,027	11,007
12 and over	7	139,298	19,899
Total	39	308,322	7,906

²⁷ Santos Guardiola Credit Union, op. cit.

In contrast, Table XI demonstrates not only the smaller number of merchants that participate in savings at the credit union, but the smaller average size of their savings. In addition it will be noticed that the merchants are concentrated in the smaller savings classes, eleven of the twenty-two merchants having a savings account of less than two thousand limperas.²⁸

TABLE XI
SIZE DISTRIBUTION OF MERCHANTS' SAVINGS ACCOUNTS

Savings in Thousands of Limperas	Number in Class	Total Savings (in Limperas) in Each Class	Average Savings (in Limperas) in Each Class
0-2	11	11,641	967
2-4	3	10,503	3,501
4-6	4	17,675	4,418
6-8	1	6,136	6,136
8-10	0	0	0
10-12	2	22,177	11,088
12 and over	1	24,590	24,690
Total	22	91,722	4,169

This same effect is even more pronounced when the savings of farmers in Table XII is reviewed. Nine of the

²⁸Ibid.

thirteen farmers have savings of less than two thousand limperas, and the average savings of the thirteen is only 2,660 limperas, reinforcing the observation in Chapter Three that farming is a marginal operation in the Bay Islands.²⁹ This observation is further reinforced in a later discussion of credit and assets.

TABLE XII
SIZE DISTRIBUTION OF FARMERS' SAVINGS ACCOUNTS

Savings in Thousands of Limperas	Number in Class	Total Savings (in Limperas) in Each Class	Average Savings (in Limperas) in Each Class
0-2	9	7,395	822
2-4	0	0	0
4-6	1	4,427	4,427
6-8	2	13,922	6,961
8 and over	1	8,816	8,816
Total	13	34,560	2,660

An examination of Table XIII (savings of miscellaneous other occupations), also indicates a large proportion (roughly half) of the savings accounts are less than two thousand limperas. The three large accounts over 10,000 limperas represent the savings of a man that owns a drydock (and is a

²⁹Ibid.

director in the credit union), a man that runs a marine engine repair shop (and husband of a former manager of the credit union) and a woman that owns part of an ice plant³⁰ that supplies ice to shrimp boats (and wife of the man that owns most of the ice plant and is president of the credit union).³¹

TABLE XIII

SIZE DISTRIBUTION OF SAVINGS ACCOUNTS (OCCUPATIONS OTHER THAN FISHING, MERCHANDISING, OR FARMING)

Savings in Thousands of Limperas	Number in Class	Total Savings (in Limperas) in Each Class	Average Savings (in Limperas) in Each Class
0-2	12	9,662	805
2-4	5	13,324	2,665
4-6	5	21,542	4,308
6-8	0	0	0
8-10	0	0	0
10-12	2	21,211	10,605
12 and over	1	73,744	73,744
Total	25	139,503	5,580

These three members are all occupied in activities secondary to the fishing industry and could well be considered a part

³⁰Ibid.

³¹Cooper, op. cit.

of the fishing industry. This would make the smaller relative savings of the non-fishermen even more pronounced.³² The local dominance of the fishing industry is further accented by an examination of the average and total credit outstanding³³ to this industry as opposed to average and total credit to other industries.³⁴ Tables VI, VII, XIV, and XV outline this relationship showing that of the credit offered by the credit union, the average loan to a fisherman is over twice as large (over fifteen thousand limperas) as loans to other occupations (four to seven thousand limperas). Although only about one-third of the credit union's business loan accounts are held by fishermen (thirty-nine fishermen as opposed to ninety-nine total), the larger average size of these loans results in around two-thirds of the total money being loaned to fishermen.³⁵ While the credit union is the most broadly based financial institution in Santos Guardiola, it can be seen that the other institutions pretty much follow the emphasis on loans to the fishing industry with Bancahsa and Financeria Hondurena lending only

³²Santos Guardiola Credit Union, op. cit.

³³Extract from the loan records of the La Cieba branch of Bancahsa, La Cieba, Honduras, June, 1974.

³⁴Extract from the loan records of Financeria Hondurena, San Pedro Sula, Honduras, June, 1974.

³⁵Santos Guardiola Credit Union, op. cit.

to fishermen,³⁶ and Banco Atlantida³⁷ lending to real estate developers.³⁸

TABLE XIV
SIZE DISTRIBUTION OF CREDIT FOR FARMERS

Loan Size in Thousands of Limperas	Number in Class	Total Credit (in Limperas) in Each Class	Average Credit (in Limperas) in Each Class
0	2	0	0
0-5	7	3,779	539
5-10	0	0	0
10-15	3	35,184	11,728
15 and over	1	16,750	16,750
Total	13	55,713	4,286

As might be expected from the discussion of savings and credit, the fisherman in Santos Guardiola also have average and total assets considerably larger than those in non-fishing occupations. Table XVI, when compared with Tables XVII, XVIII, and XIX, bears this out. The assets of the average fisherman are around sixty-seven thousand limperas, over four times the thirteen to fifteen thousand limperas average for

³⁶Bancahsa, op. cit.

³⁷Financiera Hondurena, op. cit.

³⁸Extract from the loan records of the La Cieba branch of Banco Atlantida, La Cieba, Honduras, June, 1974.

non-fishermen,³⁹ and value of the assets backing loans to fishermen⁴⁰ amounts to almost 80 per cent⁴¹ of the total value of assets backing all business loans.⁴²

TABLE XV
SIZE DISTRIBUTION OF CREDIT FOR MERCHANTS

Loan Size in Thousands of Limperas	Number in Class	Total Credit (in Limperas) in Each Class	Average Credit (in Limperas) in Each Class
0	2	0	0
0-5	12	19,104	1,520
5-10	4	28,360	7,090
10-15	3	38,899	12,966
15 and over	1	36,000	36,000
Total	22	122,000	5,562

Although the quality of asset valuation in the early years of the credit union was questionable, consisting simply of taking the borrower's word for it, later loans have been subjected to a formal review by the loan committee, and are presumably of higher quality due to both the changing nature

³⁹Financiera Hondurena, op. cit.

⁴⁰Banco Atlantida, op. cit.

⁴¹Bancahsa, op. cit.

⁴²Santos Guardiola Credit Union, op. cit.

TABLE XVI
 SIZE DISTRIBUTION OF FISHERMEN'S ASSETS

Assets in Thousands of Limperas	Number in Class	Total Assets (in Limperas) in Each Class	Average Assets (in Limperas) in Each Class
0-10	8	53,598	6,700
10-20	4	45,400	11,350
20-30	7	175,303	25,043
30-40	8	278,260	34,782
40-50	1	45,000	45,000
50-60	2	113,880	56,940
60-70	5	322,680	64,536
70-80	4	285,415	71,357
80-90	3	252,000	84,000
90 and over	9	2,546,432	282,937
Total	51	3,417,968	67,019

of the pledged assets (increasingly commercial instead of consumer) and more dependable valuation methods.⁴³ Loans to fishermen from all sources (Table VII) are covered 1.9 times by assets, roughly the same coverage ratio for all business loans (2.0 times) now outstanding in Santos Guardiola.

A look at Table XVII will show that merchants' average assets and total assets are well below the level for fishermen. Using total loan figures from Table VII, it is found that the assets of merchants cover their loans 2.8 times, indicating that creditors (in the case of merchants and farmers, only the credit union) feel that the security might not be as good as that of the fishermen.

TABLE XVII
SIZE DISTRIBUTION OF MERCHANTS' ASSETS

Assets in Thousands of Limperas	Number in Class	Total Assets (in Limperas) in Each Class	Average Assets (in Limperas) in Each Class
0-10	10	27,614	2,761
10-20	7	92,081	13,154
20-30	3	65,000	21,666
30 and over	2	153,205	76,602
Total	22	337,900	15,360

⁴³Cooper, op. cit.

Examination of Table XVIII reveals a similar situation for farmers,⁴⁴ with assets⁴⁵ covering loans⁴⁶ 3.2 times.⁴⁷

TABLE XVIII
SIZE DISTRIBUTION OF FARMERS' ASSETS

Assets in Thousands of Limperas	Number in Class	Total Assets (in Limperas) in Each Class	Average Assets (in Limperas) in Each Class
0-5	8	9,350	1,170
5-10	0	0	0
10-15	1	12,000	12,000
15-20	1	15,000	15,000
20 and over	3	142,000	47,543
Total	13	178,980	13,767

Occupations other than fishing, merchandising, and farming, however, show a ratio more in line with the fishing industry, as can be seen in Tables VII and XIX. Debts are covered by assets 1.8 times. If, however, the relatively highly

⁴⁴Santos Guardiola Credit Union, op. cit.

⁴⁵Bancahsa, op. cit.

⁴⁶Financiera Hondurena, op. cit.

⁴⁷Banco Atlantida, op. cit.

leveraged real estate development loans made by Banco Atlantida are removed from this category, an asset coverage of 2.2 times debt is obtained, placing this class more in line with other non-fishing occupations.⁴⁸

TABLE XIX

SIZE DISTRIBUTION OF ASSETS (OCCUPATIONS OTHER THAN FISHING, MERCHANDISING, OR FARMING)

Assets in Thousands of Limperas	Number in Class	Total Assets (in Limperas) in Each Class	Average Assets (in Limperas) in Each Class
0-5	8	18,900	2,362
5-10	1	5,570	5,570
10-15	4	51,348	12,837
15-20	3	49,030	16,343
20-25	0	0	0
25-30	2	32,000	16,000
30 and over	7	356,000	50,857
Total	25	512,818	20,512

Informal Credit

In many under-developed countries there has been a long history of informal lending. A rich or well established "patron" lends money or capital (often at usurious rates) to

⁴⁸Santos Guardiola Credit Union, op. cit.

a personally known small shopkeeper, farmer, or tradesman, and contributes to a net of circumstances that enmesh the small informal borrower in a credit trap that often means social conditions close to serfdom.

In the past, an informal credit market existed in Santos Guardiola,⁴⁹ particularly in Oak Ridge,⁵⁰ but without the extremely high interest rates and consequent social problems seen in other areas.⁵¹ Two present members of the board of directors of the local credit union were formerly engaged in the informal credit market as lenders, but saw it as more of a bother than as a source of high income from interest. A principal reason cited by both directors⁵² for becoming personally involved in the organization and operation of the credit union was relief from the nuisance of the informal credit market.⁵³

Although small personal consumer loans are still quite common in Santos Guardiola, the informal market for small commercial (business) loans has been taken over by the credit

⁴⁹Cooper, op. cit.

⁵⁰Garcia, op. cit.

⁵¹Statement by Rex Gough, Credit Union Director and businessman, Oak Ridge, Santos Guardiola, Islas de la Bahia, Honduras, June, 1974.

⁵²Garcia, op. cit.

⁵³Gough, op. cit.

union, and is no longer a factor in the local commercial credit market.⁵⁴

Summary

Business credit in Santos Guardiola is extended by four financial institutions: Banco Atlantida, Bancahsa, Banco Financiera Hondurena, and the Santos Guardiola Credit Union. The three banks account for most of the larger loans and generally do not even participate in really small business loans. The credit union is easily the most widely used source of loans for small businessmen, although its total loan volume in this district is slightly less than Bancahsa. All of the institutions involved are engaged in the expansion of their credit in Santos Guardiola in response to continued economic expansion and development.

These loans are made principally to the fishing industry, which is the major industry in the Bay Islands. Oak Ridge and Jonesville, the only two urban areas in Santos Guardiola, are fishing centers, and businessmen not employed as fishermen primarily service the fishing industry. The size of the average loan to fishermen is much larger than the average loan to other businessmen, as a modern shrimp boat is expensive to buy and outfit. In addition, the loans to fishermen are for

⁵⁴Cooper, op. cit.

a higher percentage of the assets being financed than are other business loans, indicating that boats might be considered better security.

Some loans are also made for real estate and tourist development, both because the banks want to diversify their risk exposure in the fishing industry, and because government policy encourages diversification of industry to reduce the social risk of a one-industry slump.

CHAPTER VI

SUMMARY, FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Summary

The small businessman in an undeveloped country often finds that he is isolated from formal, institutional credit sources either through ignorance or by his non-acceptability as a credit risk. Both his lack of credit and lack of education can limit his participation in national development, and in fact, such development might work against him as it makes his competitors' easier access to these resources even more important.

The field research for this study was done in the Bay Islands of Honduras, in the municipality of Santos Guardiola. The Bay Islands are tropical islands with typical tropical vegetation and climate. Consisting of steep, rugged hills, Santos Guardiola makes up the eastern half of Roatan Island, with well-protected harbors on the south side, long sandy beaches on the north side, and a barrier reef surrounding it all. The study area has a population of slightly more than 1,000; mostly English-speaking. The ethnic and cultural orientation of the population toward the English-speaking world works to isolate them from the Spanish-speaking

mainland. The islands did, in fact, act as a base for British pirate and military raids on the mainland during the colonial period, and this role has not been forgotten on the mainland.

Many of the men on the islands work abroad on ship or oil rig crews. This, along with shrimp fishing exports to New Orleans, provides most of the external income of the islands. Tourism is gaining importance on the islands, but the banana industry that flourished around the turn of the century has moved to the mainland, and agriculture on the islands is now inconsequential.

In this study of the educational level and credit availability of businessmen in Santos Guardiola, it was found that higher levels of education corresponded with both higher levels of loan authority at financial institutions, and with larger loans outstanding for those borrowing money. In addition, it was found that educational level corresponded to the degree of comprehension of several basic principles of credit (demonstrated by interview questioning), although an examination of the subject content of the educational background of the subjects revealed almost no formal study of these principles.

Business credit in the study area is handled by three commercial banks and the local credit union; with the banks accounting for the larger loans and the credit union taking

on most of the smaller loans. While the average credit union loan is much smaller than the average commercial bank loan, the larger quantity of loans allows the credit union to maintain over 40 per cent of the business credit in Santos Guardiola. Almost 80 per cent of commercial loans are made to those in the fishing industry to finance boats and equipment, and this percentage would be even higher if the credit of supporting businesses such as the drydock, ice plant, machine repair shop, and others were counted.

Only eight of the businessmen surveyed had completed any degree of higher education, and none of this work had been done in Honduran universities; it was all done in the United States. Five of the eight were United States citizens.

Findings

As a result of the research done for this study, it was found that

1. The educational level achieved by the small businessman in Santos Guardiola ranges from fourth grade through college graduation. Of the ninety-nine subjects tabulated, sixty-five had finished the sixth grade with the others scattered fairly evenly over the extremes mentioned above.

2. The basic principles of the use of credit are understood by most businessmen, with the better educated demonstrating a better understanding of the more sophisticated concepts. All of those interviewed demonstrated a basic

comprehension of interest, collateral, and payback period; about half understood fixed and variable costs, and financial leverage; and only two had any understanding of present value techniques.

3. The course content of the formal educational background of the businessmen of Santos Guardiola contained no finance except a study of interest rates and compound interest.

4. Out of the total of 111 persons in Santos Guardiola engaged as business principals, 100 have loans outstanding from either the credit union or one of the three commercial banks active in the area.

5. The financial institutions operating in Honduras have varying policies toward businessmen in the Bay Islands:

a. Development banks and agencies such as Banco Interamericano de Desarrollo, Banco Nacional de Fomento, and Agency for International Development usually emphasize funding of large industrial or agricultural projects, and none of these institutions presently have any investments in the Bay Islands.

b. Three commercial banks operate in the study area: Bancahsa, Banco Atlantida, and Financeria Hondurean. Bancahsa and Financeria Hondureana fund only fishing boats and equipment, with fifteen accounts outstanding, averaging around 80,000 limperas each. Banco Atlantida makes only real estate development loans in

Santos Guardiola, and will soon be left with only one account, with 100,000 limperas outstanding. The size of the commercial bank loans indicates a preference for larger loans, and while all three banks denied discrimination against the smaller loan accounts, it is obvious that such business is not eagerly sought. Bankers cited problems in the administration of small accounts and the general lower quality of smaller loans as reasons for not actively soliciting these loans.

c. There are no true financieras in Honduras. Financiera Hondurena is now, by law, just another commercial bank.

d. An informal commercial credit market does not exist in Santos Guardiola. Two past financiers of the local informal credit system are now directors of the local credit union.

e. The Santos Guardiola Credit Union has over 80 per cent of the local commercial loan accounts; but because the accounts are much smaller than the competing banks, this accounts for only around 43 per cent of total money loaned. The credit union actively seeks members, and gives loan preference to small commercial borrowers.

6. The educational level achieved by those authorized to approve loans varies. The three members of the credit union loan committee have sixth, tenth, and twelfth grade

educations. Most of the members of the bank loan committees hold an associate degree in bookkeeping (perito mercantil) or a bachelors degree (licenciado), usually majoring in business, economics, or law.

7. There is no market for informal business loans in Santos Guardiola; therefore, no findings were made concerning the private lender's understanding of the use of credit.

8. The members of the loan committee of the Santos Guardiola Credit Union received no business skills from their formal education in Honduras other than a study of interest rates and compound interest.

Most of the members of loan committees of the commercial banks have either an associate degree in bookkeeping with many business skills acquired in their training, or degrees in business, economics, or law.

9. Development banks extend no loans to Santos Guardiola, commercial banks extend 57 per cent of the small business credit, and the Santos Guardiola Credit Union extends the remainder.

Conclusions

Based on the findings presented above, the following conclusions were reached:

1. The general level of education in Santos Guardiola is approximately the sixth grade level. Higher education at this time plays only a small part in the education of the general public.

2. Businessmen in Santos Guardiola have a basic understanding of credit, but lack sophistication in anything beyond the basic level. Although there is very little business or finance content in their educational background, a better understanding of credit generally goes with a higher level of education.

3. The restriction of the business and finance content of their formal education to the study of interest rates and compound interest does not restrict the small businessman from acquiring other financial concepts from other sources. The relatively low sixth-grade educational level generally means a lack of specific knowledge, but does not seem to indicate a lack of intelligence or initiative to gain specific knowledge when it is needed.

4. Credit is used by a large majority of island businessmen.

5. Development banks are interested in only major industrial projects and do not attempt to extend credit to the Bay Islands. Commercial banks are interested in placing larger business loans, and the Santos Guardiola Credit Union shows particular interest in the smaller business loans.

6. Those responsible for approving credit in Santos Guardiola have adequate knowledge of the principles of credit whether these principles were learned in their formal education or elsewhere.

7. The inconvenience, cost, and risk of informal credit can not compete with the convenience, cost, and safety of the credit union and commercial banks.

8. The basic education available in Honduras contributes little to the acquisition of business skills. Higher education in the form of the associate degree in bookkeeping or the degrees in business, economics, or law have considerable business content, but Santos Guardiola has made little use of higher education.

9. While the overall size of both deposits and loans is growing in Santos Guardiola, the credit union has tapped the potential of the small customer and has demonstrated more rapid local growth than the commercial banks.

Recommendations

Based on the research done for this study, and the findings and conclusions thus derived, the following recommendations are offered:

1. To counter the lack of knowledge of more refined business and financial concepts and the relatively low educational level of local small businessmen, a series of use-oriented seminars should be organized (see recommendation six).

2. Increase the impact of higher education on the local population and business community by encouraging university attendance at Honduran universities. Increased local

participation in Honduran higher education would go beyond the usual impact of increasing the social and economic worth of the graduate; it would also augment the national goal of cultural integration of the Bay Islands with the Hispanic culture of Honduras and to some extent lessen the drain of foreign payments as students' tuition and support is spent in Honduras rather than overseas. To accomplish this, three specific actions should be initiated:

a. a scholarship program to the National University should be established for Bay Islanders,

b. a cultural impact program should be established for Bay Islanders attending the National University to include a small student union, extracurricular Spanish culture classes, and tutoring assistance in specific courses, and

c. a program should be started for graduate and student visitation to lower level schools to discuss the National University with potential students.

3. The fact that businessmen need and acquire many business skills to run their operations and acquire almost none of these skills in their formal education leads to the obvious recommendation that business and financial skills beyond interest rates and compound interest be included in the formal curriculum. The non-business general public would also benefit as more alert customers.

4. Business credit is already widely used in Santos Guardiola, and should expand with expanding capital needs.

5. Development banks should look more carefully at the industrial potential of the Bay Islands and consider projects there. The commercial banks should give more attention to the potential of the small customer. The credit union should keep up the good work.

6. The educational and skill level of loan officers is adequate for their job, but continued involvement in higher education business courses and banking seminars should be encouraged. The National Credit Union Association should expand its loan officer seminar, and should undertake the organization of the public seminars as discussed in recommendation one.

7. The credit union has involved the small saver in its program, and draws from a source of capital that might otherwise go unused in a capital-short economy. Credit unions should be further encouraged on a national level as catalysts for the concentration of capital for small business and industrial use.

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