

PD-MAL-316  
1510 12/27

5220120/15

CLASSIFICATION  
**PROJECT EVALUATION SUMMARY (PES) - PART I**

Report Symbol U-447

<b>1. PROJECT TITLE</b>  Agro-Industrial Export Development			<b>2. PROJECT NUMBER</b>  522-0120	<b>3. MISSION/AID/W OFFICE</b>  USAID/HONDURAS
<b>4. EVALUATION NUMBER</b> (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) <u>522-79-1</u>			<input checked="" type="checkbox"/> <b>REGULAR EVALUATION</b> <input type="checkbox"/> <b>SPECIAL EVALUATION</b>	
<b>5. KEY PROJECT IMPLEMENTATION DATES</b> A. First PRO-AG or Equivalent FY <u>79</u> B. Final Obligation Expected FY <u>80</u> C. Final Input Delivery FY <u>81</u>			<b>6. ESTIMATED PROJECT FUNDING</b> A. Total    \$ <u>5,300,000</u> B. U.S.     \$ <u>1,700,000</u>	
<b>7. PERIOD COVERED BY EVALUATION</b> From (month/yr.) <u>9/76</u> To (month/yr.) <u>6/78</u> Date of Evaluation Review <u>9/12/78</u>				

**B. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR**

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., algram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
<p>The decisions and unresolved issues resulting from the Checchi consultants' report are discussed in the attached memorandum, entitled "Recommendations for Further Implementation of the Agro-Industrial Project (522-0120)", September 12, 1978.</p>		

<b>9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS</b> <input type="checkbox"/> Project Paper <input type="checkbox"/> Implementation Plan e.g., CPI Network <input type="checkbox"/> Other (Specify) _____ <input checked="" type="checkbox"/> Financial Plan <input type="checkbox"/> PIO/T      _____ <input type="checkbox"/> Logical Framework <input type="checkbox"/> PIO/C <input type="checkbox"/> Other (Specify) _____ <input checked="" type="checkbox"/> Project Agreement <input type="checkbox"/> PIO/P      _____	<b>10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT</b> A. <input type="checkbox"/> Continue Project Without Change B. <input checked="" type="checkbox"/> Change Project Design and/or <input checked="" type="checkbox"/> Change Implementation Plan C. <input type="checkbox"/> Discontinue Project
<b>11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)</b>	<b>12. Mission/AID/W Office Director Approval</b> Signature: _____ Typed Name: <u>J. B. Robinson</u> Date: _____

UNITED STATES GOVERNMENT

# Memorandum

No. 522-79-1

TO : Mr. John Lovaas, AAD

DATE: September 12, 1978

FROM : Aaron Williams, AGR *ASW*

THRU: Mr. William *W* Janssen, AD-RD

SUBJECT: Recommendations for Future Implementation of the Agro-Industrial Project (522-0120)

The attached memorandum is comprised of the following sections:

- I. Background (Checchi Evaluation Report)
  - A. General Conclusions Summary
  - B. Recommendations Summary
- II. Project Implementation Issues/Recommendations
  - A. The Overall Project
  - B. Fresh Produce Demonstration Project
  - C. Processed Vegetable Demonstration Project
  - D. Institution Building Activity
- III. Implementation Timetable and Summary Budget

Cleared: OPCR:KSchofield (in draft)

RECOMMENDATION: Based on the recommendations herein, that the Mission proceed to negotiate and sign a Project Agreement(s) with the Ministry of Natural Resources, which would obligate \$100,000 of FY 1978 funds and authorize the expenditure of \$165,900 of TQ and FY 1977 funds.

APPROVED                     

J. LOVAAS *JL*

DISAPPROVED                     

DATE 9/23/78



5010-110

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

The first in-depth evaluation of the subject project was completed during July 1978, and as planned this activity will be one of the primary inputs used to formulate the strategy for future Project activities. Thus, the purpose of this memorandum is to present the findings/recommendations of the evaluation, to provide a concise presentation of the key issues to be resolved, and to provide Mission management with recommendations for future Project implementation.

I. BACKGROUND

Checchi and Company was contracted on July 2 to evaluate the Agro-Industrial Project. The purpose of the evaluation was to assess the economic, social and institutional impact that the Project has had (during its first 2 years) on the GOH and the target group. The two man team, an agricultural economist and socio-anthropologist, terminated their services and submitted the final report on July 28.

The report provided extensive conclusions and recommendations which are summarized below.

A. General Conclusions (with handwritten notes: "of the ... - ...")

(1) The Project's goal of expanding the market for small farmers is indeed the most effective way to create rapid improvement in farmer's incomes and general life situations; thus the project's basic concept is excellent. The Checchi team agrees with the Project Paper premise that Honduran economic development is hampered by a lack of domestic buying power and local demand for products of almost any kind. Seventy percent of the population lives in rural areas and the majority of those live under subsistence conditions. The evaluators feel that this problem was properly addressed by this project aimed at bringing in export earnings to be channeled to the rural poor segment.

(2) The implementation period of this project has proved to be much longer than originally planned and in response to this USAID Project Management has prudently tailored disbursements to actual project needs; as a result only about 25% of the funds have been disbursed (38% - \$640,000 have been obligated).

Fresh Produce Demonstration Project

(3) The fresh vegetable demonstration project has had a measurable and positive effect upon small farmers, government ministries, and the Standard Fruit Company. The two government ministries involved with the project, although not fully cognizant of all of its ramifications, see it as a model which will be applicable to their goals of assisting small farmers and promoting commercialized export products. The Standard Fruit Company felt that much has been achieved with the small farmers, that technical problems can most likely be eliminated thus paving the way for expansion of exports of tomatoes and cucumbers.

(4) The most critically important institution to be developed by this project must be the packing shed cooperative. If this institution is successfully established, it will stand as a unique model in Honduras, evolving into a cooperative federation based on the production co-ops of the agrarian reform sector but including independent farmers as members and working closely with private sector marketing agents. If this organization is successful, its spread effect should not be underestimated. Many in Honduras are now searching out models for agricultural enterprise that successfully integrate social and economic objectives. INA, the cooperative sector, the two peasant movements, and public and private agribusiness organizations -- all feel the need for a new model that will provide for rapid economic expansion while maximally including and benefitting the small peasant land reform recipients. At present, only three such models exist in all Honduras: the banana co-ops, the PATSA melon project, and the CONADI sesame seed

project. Each of these models has its drawbacks. The proposed packing plant organization, drawing as it does on the previous experience of these other models, should be a real improvement. If it is, it will be imitated.

(5) The original concept of performing technical feasibility and marketing studies, to culminate in the organization of some structure to operate packing facilities, was well conceived to start with, and has been proceeding quite satisfactorily. The recommendations of the Standard Fruit Company study have been for the most part implemented, and have resulted in positive demonstration experiences.

(6) The impact upon the target groups has been very positive. For both groups this is the first successful collective project that they have experienced, in the wake of the financial rewards they received, both groups have nothing but positive things to say about the project and all cooperating agencies, Standard Fruit, MHR, AID. Employment of women at salaries equal to men was enthusiastically received by women and the women's involvement in the project is a small move against the ideology of female inferiority held by most peasant men and women in Honduras. Massive technology transfer was attempted both in the growing and packing, and it has already been largely successful according to both peasants and agronomists. Holding packing plant capital costs to an absolute minimum and using unusually labor intensive technology, even for an industry which is inherently labor intensive, has been an effective way to maximize income benefits to the target population.

No groups or farmers in Comayagua or Copán were encountered who did not themselves wish to join this project. The project has caused the peasant groups and their affiliate organizations to comport themselves in a more business like manner and less like a pressure group movement. Also, other asentamientos and even the Comayagua ANACH office have become quite interested in working with Standard Fruit.

The incentives built into the project -- paying wages to campesinos and of allowing them to sell locally non-exportable product resulted in misimpressions and possible counterproductive effects. One misimpression is that the company buying the produce will pay them for working in their own fields. The practice of allowing the campesinos to go directly to the local fresh market with the non-exportable produce may have created some unusual harvesting techniques and a selection bias.

(7) Technically, the tomato production is deemed by Standard Fruit technicians to be at least two years away from <sup>to</sup>comercialization. There are fewer technical problems with cucumber production, and these problems could well be resolved during the next growing season. Three shipments of tomatoes from the project were rejected by the USDA in New York because of the deteriorated condition of the product. It is suspected that handling problems may have caused this problem due to the lack of constant supervision of inexperienced packers, and due to equipment which may not have been completely adequate for the proper handling of tomatoes. Cucumbers were produced with amazing high yields and most of those shipped to New York arrived in very good condition.

There are currently in the Comayagua Valley 30-50 experienced medium sized tomato farmers, capable of planting an average of 20

manzanas each. Thus once technical problems are overcome, there should be no problem in rapidly increasing the scale of exports to fully commercial levels.

(8) Top level Ministry of Natural Resources (MNR) officials do not feel that the project is their responsibility, but they are committed to carrying out technical activities connected with it. Project-level MNR personnel, however, view the project as theirs. When the contract with Standard Fruit was signed, it specified that the MNR had project control, a factor which led to minor conflicts. However, the project participants felt that the vegetable technician team's performance was quite satisfactory. During the course of the project, the MNR failed to provide equipment as specified in the contract.

(9) The PATSA operation in Choluteca offers important clues regarding the most appropriate model for the organization of a packing operation. The five-year contract with an international food marketing organization seems to be palatable to farmers and government alike. The missing elements in that project are: (a) ability to transfer ownership to a non-governmental group which functions to serve the need of the producers, (b) lack of training for local talent to take over operation at the end of the five-year contract, and (c) lack of production.

If Standard Fruit were given a management contract, it would most likely pay the farmers using a fixed price contract. This price would be based upon calculating farm production and packing costs and adding a percentage. Standard Fruit uses this pricing practice with cooperatives it has formed for banana production in Honduras.

(10) CONADI is interested in investing in a fresh vegetable plant to be constructed alongside the Mejores Alimentos Plant, and in fact Mejores Alimentos has experimented with a few loads of tomatoes and limes to the U.S. during the last two years. CONADI can legally lend to cooperatives, however, it has never done so and is extremely reluctant to jeopardize itself in this area. On the other hand, CONADI states that it would participate in financing any project that A.I.D. provided money for, even if the capital outlay was less than the minimum required (L. 750,000).

#### Processed Vegetable Demonstration Project

(11) The processed vegetable demonstration project is at a complete standstill, because Mejores Alimentos, the processor, is averse to working with small farmers and because its current corporate marketing strategy is inconsistent with the export strategy proposed in the Project Paper. Mejores Alimentos suffers from a lack of credibility and acceptability with vegetable growers within its area of influence because of late payments to growers and because of the unwillingness of the company (which enjoys a protected industry status) to pay prices which would allow the farmers some profits while they are solving their yield problems. In this connection, the technical ability of the company agronomists is questionable given the low yields on the company farm.

Mejores Alimentos officials simply refuse to pay a price which will enable the small farmer to stay in business while bringing his yields up to a point where he achieves profits. Mejores Alimentos is presently incapable of developing a larger raw material supply and cannot enter the U.S. market as originally envisioned in the Project Paper. In fact, the present corporate strategy is to expand its share of the Central American Market.

The technical assistance provided through the USAID grant was found satisfactory by Mejores Alimentos in both aspects, i.e., processing techniques and marketing. We feel, however, that the company's major problem is neither in technical processing nor marketing know-how, but rather in its inability to acquire raw materials.

(12) CONADI, as the current major stockholder, is not committed to AID's goal of assisting small farmers or of promoting exports to the U.S. markets. Of all public organizations contacted in the course of this study, it was found to be the least sympathetic to the official Honduran Government policy of aiding small farmer groups. This lack of sympathy is to be found in Mejores Alimentos' management as well.

(13) Small farmer impact. This demonstration project differed from the fresh vegetable demonstration project in that farmers bore all the financial risks. Under a contractual agreement with the plant both the Las Cañas and San Pablo peasant groups involved lost heavily.

(14) It is felt that the three most effective ways to increase small farmer production, if Mejores Alimentos earnestly decided to deal with small farmers again, are: (1) prices which will enable them to receive enough returns to sustain their efforts until they can achieve really profitable yields; (2) transportation to get the product from the farm to the plant; and (3) intensive technical assistance on a day-to-day basis.

#### Institution Building Activity

(15) The institution building aspect has had a very limited effect and its spread effects have been minimal. The most notable institution building activity has been the formation of a small

embryonic vegetable technician team within the Ministry of Natural Resources. Three graduate scholarships were given to Ministry of Economics officials, and one agribusiness seminar has been conducted.

(16) The potential expansion of the Honduran export vegetable industry is highly promising, however from a socioeconomic standpoint the absence of grower-processor cooperation is a key rupture in the agribusiness system, and anything this project can continue to do to foster a more cooperative relationship will be a key institution building activity.

**B. Evaluation Recommendations**

The following represents a summary of the Checchi recommendations:

(1) It is recommended that the project be extended by four years in order to allow for the successful investment of the remaining funds, given the realities of the project.

(2) For the processed vegetable component it is recommended that USAID/Honduras offer technical assistance to Mejores Alimentos in the form of a feasibility study which would ascertain the possible development of measures to increase raw material supplies and to obtain an increase in company profits through expanded production by small farmers in the Comayagua Valley. This study would include the investigation of higher raw material pricing levels, the provision of additional field TA, the providing of produce transportation to small farmers, and an analysis of the Central American processed tomato market (existing competitive structure, consumption trends, potential for expansion, etc.).

If the above feasibility activity gives positive results and the company agrees to purchase raw materials from small farmers, it

is recommended that AID provide funding for the hiring of one or two Agronomists to work exclusively with small farmers.

(3) In the fresh produce project there continues to be agronomic and marketing problems still to be resolved, due to these factors and the constraints presented by the need to plant these vegetable crops at the right time or be faced with highly diminished yields, it is recommended that USAID/Honduras move immediately to put into effect a project management contract with the Standard Fruit Company to repeat the production and marketing experiments carried out last year. The purpose of repeating the demonstrations would be to resolve agronomic problems, and to upgrade the equipment and handling procedures at the interim plants to a point where handling abuse is eliminated as a possible cause of rejected shipments.

It is recommended that the MNR in coordination with the project, plant test plots with two or more groups having one manzana or less of the two crops. The role of the MNR extensionists would be to contact other groups to have land under irrigation. With these other groups they would put together demonstration plots of less than one manzana in size. These test plots would enable the collection of cost, yield, and technical cultivation data useful as this project begins to expand. The MNR extension agents should not have final say in the Las Cañas and Comayagua sites. Using the same model as PATSA in Choluteca, they form a part of an equipo técnico where the Standard Fruit agronomists have the final word.

It is recommended that the packing plant be placed on a business-like basis with ordinary controls, standards, and the like; proper incentives must be utilized to achieve the kind of results that are ultimately desired by the project. In short, a demonstration that a business should operate as much like a business as possible. If wages are paid, the group members should not get the impression that

they are being paid by Standard Fruit or AID/Honduras to work on the demonstration plots. They should be assisted to take out a loan to pay for operation costs including their own labor, renting equipment, and running their irrigation systems during the crop season. Local sales and export revenues, if any, should go to repaying the loan.

The packing plant should purchase the entire production, taking the responsibility for placing the unexportable product on the local fresh vegetable market. The marketing exercise should be repeated through Standard Fruit, except this year Standard will buy the produce from the asentamientos. AID/Honduras should set aside a portion of the grant funds to subsidize possible losses from rejected shipments while Standard technicians continue to resolve disease and logistical problems. The farmers cannot be expected to improve harvesting and handling care without feedback from the marketplace. If the experiment fails, AID would reimburse Standard for the loss. The payment would be based on USDA rejection slips.

Participating farm groups should be assisted in obtaining farm production credit which will enable them to pay themselves for labor provided during the growing season. The Standard Fruit Company will assist in making necessary financial and loan calculations based on last year's labor records.

It is recommended that the terms of reference for a four year management contract, which would provide project coordination, agronomic outreach, counterpart training, and technical research, be prepared during this year so that RFPs can be sought out and that the management can be in place well in advance of the 1979/80 planting season. Illustrative implementation recommendations are provided in the evaluation report for the above four year period and provides the basis for designing the scope of work for the proposed contract.

(4) In general, the recommendation is that the institution building activities should be institutionalized. It seems to make a little difference to the success of the project whether the cooperative arrangement among USAID, Ministry of Economy, and Ministry of Natural Resources continues or whether GOH project responsibility is shifted to the MNR completely. The management contract concept seems acceptable to the Ministries as a project implementation vehicle, with the contractor taking real project management responsibility.

The limited institutional support provided by AID should bolster the MNR's capabilities in vegetable research and extension.

The Vegetable Section consists of Ing. Denis Ramirez, its head, two recent Zamorano graduates who serve as agronomists, two even more recent Zamorano graduates who serve as agronomists' assistants, and two secretaries. This evaluation team has interviewed all members of the unit, and it is obvious that the Vegetable Section is a highly motivated, high-morale unit. Most people interviewed who had come in contact with the unit characterized it as qualitatively more effective and efficient than other MNR extension agents with whom they had previous contact.

The MNR vegetables unit appears to be capable of absorbing and effectively utilizing project-sponsored training to increase its expertise and effectiveness in assisting the production of fruits and vegetables to expand Honduras' non-traditional agricultural exports. Indeed, the project management already plans to provide the unit's agronomists with advanced undergraduate agricultural training at United States universities. This seems appropriate, since at this point the actual horticultural know-how in the team is quite limited -- only the director has had specialized training in this area. In addition to these educational activities, however, the vegetable

unit should be one of the targets of the functional institution building activities advocated in the next section.

Before Honduras can expand beyond cucumbers and tomatoes to other export vegetables, however, a great deal of applied research and agricultural testing remains to be done. The project has already made a crucial contribution here, and it can make even more contributions in the future, if it continues to develop the capacity of the MNR Vegetable Section.

Finally, it is recommended that the INCAE seminars continue, in light of their value in providing upper level GOH officials an opportunity to stay abreast of non-traditional agribusiness trends.

## II. PROJECT IMPLEMENTATION ISSUES/RECOMMENDATIONS

The issues involved in the recommendations of the Checchi evaluation report, and the proposed USAID/Honduras response to these are detailed below.

### A. Continued Implementation of Overall Project

The evaluation report indicates that the Project should be continued; however, an expanded implementation timetable would be required given the complexity of developing diversified fresh produce farming operations, and in light of the fundamental problems facing the processed vegetable component. Based on the readily identifiable needs of the fresh produce demonstration project, Checchi felt that an extension of four years would be appropriate, i.e., a new PACD of September 1983 vs. the present PACD of March 1980. The activities under this revised time frame would not require any additional funding, given that the original Project design would still be followed. Therefore, it does not appear that any formal extension is needed at this time.

The continuation of the project would require that four key issues be resolved. The first item concerns project funding in that the funds which were not utilized, i.e., not allotted in FY 1978 (\$480,000) would be needed in FY 1980. Secondly, the project management requirements in terms of AID staffing must be addressed. The completion of the transfer of implementation responsibility from the Ministry of Economy (MOE) to the MNR is the third requirement for future Project implementation. The final issue involves on the one hand a decision to continue or terminate the processed vegetable demonstration project; and alternatively to take the steps necessary to continue the successful implementation of the fresh produce demonstration project.

The first three issues will be treated in this section, while the last issue, the future implementation of the demonstration project; will be discussed in sections B and C of this memo.

#### A.I.D. Recommendations

The rationale developed by the evaluators for the 4-year extension of the Project is reasonable and we also recommend this course of action. However, as a means of continuing the prudent utilization of grant funds and to assure that the objectives of the Project are met during the prolonged time frame, it is recommended that the obligation of funds be linked to periodic project evaluations. At the present, funds available in the TQ, 1977, and 1978 fiscal years should be used to implement 1978/79 crop cycle activities, as recommended by the evaluators. The financing of new activities designed for the extension period will be contingent upon the favorable evaluation of the results from the previous crop cycle. For example, the suggested long term management contract in the fresh produce project would not be funded until an evaluation is made (May/June 1979) of the 1978/79 crop cycle. No doubt the appropriate timing

of the evaluations would continue to be in the May-June period of each year.

In order to extend the project for the proposed year period the \$480,000 that was not utilized in FY 1978 would be required in FY 1980, as currently budgeted. Therefore, it is recommended that the 1980 Congressional Presentation reflect this budgetary revision, i.e. the allotment of the above monies for FY 1980.

Over the past two years, the A.I.D. project manager has devoted approximately 90% of his time to project management activities, in conjunction with his GOH counterparts. Although this personnel intensity has been an important factor in the Project, new program demands on Mission staff will no longer allow this generous project/ staff ratio. Therefore, we recommend that a local hire PSC be contracted, with a grant funded host country contract, to assume advisory and coordination duties under the auspices of the MNR. The specific department of the MNR which would employ this PSC will have to be determined during the 1978/79 crop cycle, given the interest expressed by both the Sector Planning and Ag. Operations departments. However, in the near term, if the Project continues and the new Pro<sup>a</sup> Ag is signed, the project management activities will be the primary responsibility of the MNR's HORTICULTURE Unit and the St. Lucard Fruit project manager (for the fresh project); and the firm contracted for the feasibility studies of Mejores Alimentos (processed project).

During the months of November and December in 1977, the MOE initiated the preliminary negotiations for the formal transfer of the Project to the MNR. This action was based on the MOE's reasoning that because of the primary agricultural emphasis of the Project

It would be better carried out by the MNR. Both A.I.D. and the MNR concurred with this rationale in light of the strong role the Horticulture Unit played in the Project's activities and given the MOE's modification of its previous desire to use this Project as a means for designing a diversified agribusiness marketing strategy. Pursuant to an exchange of letters between the Ministers of both institutions the following was agreed to:

- (1) that both parties were interested in the continuation of the Project;
- (2) that the MNR would continue project implementation if the MOE's cooperation could be secured during an administrative transition period. As a result of this, the MOE proceeded to negotiate and approve a contract with Standard Fruit for 1977/78 activities.

Based on the agreement between the MOE and the MNR, it is recommended that this GOH arrangement be formalized through the signing of a new Project Agreement between A.I.D. and the MNR. We feel that this action is entirely appropriate from a Project design standpoint given the prominent implementation role of the MNR in the Project Paper, and in recognition of the shift in the MOE's position towards the Project.

B. Fresh Produce Project

Under the fresh produce project the issues are: (1) the rapid initiation of the 1978/79 crop cycle in order to implement the required activities during the target marketing period; and (2) the development of an RFP package for the recommended long term management contract.

A.I.D. Recommendations

It seems entirely appropriate that this demonstration project be continued given the following factors: the modest agronomic/marketing success this present year; the enthusiasm demonstrated by the participating asentamientos; the interest of the MNR, and existence of readily available qualified TA. We concur with the Checchi recommendation that the Standard Fruit contract be renewed based upon the Company's excellent performance as detailed in both the evaluation report and in the MNR's 1977/78 report on their Comayagua/Copán activities. Furthermore, the MNR, Standard and AID have the opportunity to capitalize upon the 2 years of favorable and extensive project results if we begin the crop cycle during the target period of time (October 1978). By starting up during early October we will be able to produce and market the two crops (tomatoes and cucumbers) during the ideal winter marketing period in the U.S.

Although the evaluators recognized the experimental design of this year's operations they recommend that the project management team (Standard/MNR) proceed to establish the proper incentives, controls, and standards of a business enterprise. This is a reasonable stance and AID should assure that the 1978/79 contract includes the terms and conditions required to provide rational incentives to the participating farmers from a cost allocation standpoint, and to establish pricing parameters as a basis for long term producer-exporter relationships. However, we are of the opinion that the production credit, and farmer-plant relationship will not be fully implemented during the 1978/79 crop cycle due to timing constraints (Oct. start up), the agronomic problems that must be resolved, the inherent risk (especially to our target group) of an overly ambitious expansion in terms of acreage or contractual obligations. The initiation and completion of Checchi's business enterprise recommendations will be addressed on a comprehensive basis during the proposed

long term management contract, whose scope will be developed during this next crop year.

In order to successfully develop a viable agribusiness which would eventually involve both equity and management roles for participating small farmers, it is essential that a long term management contract be signed with an appropriate firm. However, it is recommended that the contract be for one or two years with an extension clause. This long term contractor will be required not only to design and manage the packing plant, but also will be responsible for the training and incorporation of the asentamientos (selected members) into the management functions.

As a means of developing the parameters for the long term expansion of the fresh produce project, extensive in-depth conversations have been held with LAAD and CONADI. Both organizations, and especially LAAD, have expressed interest in both an equity and managerial role if the project continues as presently designed. It is our belief that the ideal short term arrangement would involve the joint ownership of the packing plant by CONADI and LAAD with small farmer participation designed under the long term management contract. Due to the fact that both CONADI and LAAD would function as ICIs: i.e., channeling AID funding, the management contract would be a means of gaining their participation. It should be noted that for LAAD such involvement would represent the first time that it would take an equity position in direct partnership with their target group (small farmers). Due to the innovative nature of this venture LAAD's Board of Directors discussed this issue at length, and have given its approval to LAAD management.

Funding Requirements and Necessary Action

- (1) Negotiate and sign new Project Agreement with the MNR (refer to part II A)
- (2) MNR and Standard Fruit must renegotiate and sign new contract.
- (3) Utilize \$165,000 of unearmarked funds from the TQ and FY 1977 Project Agreements to fund the renewal of the Standard Fruit contract for one year.

C. Processed Vegetable Project

The fundamental issue in this project is the feasibility of developing a mutually beneficial relationship between Mejores Alimentos and the Comayagua Valleys' small farmers. The absence of this relationship, between our target group and this important processing plant, has impeded any progress in this project component. The Checchi report identified two critical problems in this demonstration project:

(1) Due to tomato crop failures in Guatemala and to some degree increased incomes arising from the "coffee boom", the processed tomato products market in Central America had doubled or perhaps tripled in size, thereby offering outstanding marketing opportunities for the company. These potential incremental sales created a situation whereby the company's management decided, and apparently wisely, to forgo temporarily the AID financed export activity.

(2) The problems which both the processing plant and the Comayagua small farmers have encountered in their past dealings

have created an environment of mutual distrust and uncertainty.

A.I.D. Recommendations

The basic premise of the Project Paper in the processed vegetable project was that the Mejores Alimentos plant represents a critical and extremely beneficial resource to not only the Comayagua Valley farmers but also to the national economy of Honduras. Although the Project's original export orientation, i.e., the U.S. institutional market, does not seem appropriate at this time, the company still has the potential for assisting small farmers in light of the apparent market potential in Central America. The task ahead, and worthwhile of pursuing, is one of convincing Mejores Alimentos that a profitable arrangement can be established with small farmers. As mentioned in the evaluation report the company is extremely interested in increasing their raw material supplies and within their financial constraints are attempting to reach all farmers in the Valley.

Therefore, in our opinion the Checchi recommendations should be accepted, in the following fashion:

(1) USAID/Honduras will approach Mejores Alimentos with a TA package providing for financial and marketing analyses which would ascertain the feasibility of increasing prices to farmers comparable to anticipated yields; raw material transportation needs of the farmers; the anticipated expansion and trends within the Central American tomato market; the feasibility of providing intensive field TA to small farmers; and the overall raw material supply potential of the Comayagua Valley. This would be the only AID financed activity during the 1978/79 crop cycle.

(2) If the results of the above analyses so indicate, AID will finance the hiring of one or two field men (host country

PSCs) employed by CONADI and assigned to Mejores Alimentos. These technicians would work directly with small farmers and be in place for the 1979/80 crop cycle. The veracity of this action would be measured during the Project evaluation in spring 1979, and prior to obligating the required funds.

Funding Requirements and Necessary Action

(1) Utilize \$15,000 of FY 1978 funds for the financial and marketing feasibility studies (AID direct contract)

(2) Negotiate and sign new Project Agreement with the MNR

(3) The financing of additional tomato specialists, if so decided during the spring 1979 evaluation, will be provided for under a FY 1979 Project Agreement.

D. Institution Building Activity

The evaluators concluded that the institution building activity should be de-emphasized. The management contract concept was identified as the proper instrument for project management responsibility. However, these issues are tempered somewhat by the belief that institutional support should be provided to the MNR's Horticulture Unit. This assistance would be in the form of advanced agricultural training, and the continuation of the INCAE seminars.

A.I.D. Recommendations

The gains achieved to date in the Project were made possible, to a large extent, because of the training and management experiences received by both the MOE and MNR personnel over the past two years. Therefore, we do not share the evaluators antipathy for the institution building activities, although recognizing that modifications are called for in future project implementation. The principal change

will involve, as previously discussed, the transfer of Project responsibility to the MNR. This transfer recognizes the heretofore de facto management role of the MNR and establishes an institutional umbrella for the promotion and execution of agro-industrial projects which can potentially improve the economic well being of AID's target group.

Finally we concur with the Checchi recommendations that:

(1) members of the Horticulture Unit be provided with advanced agricultural training; their training would be designed to complete a B.S. degree with a Horticulture Specialization;

(2) The INCAE seminars be continued, however not only for the benefit of top GOH officials, but primarily because of the forum the seminars offer for the discussion of mutual agribusiness problems/solutions among the various entities (both public and private sector) involved in the Project.

Funding Requirements and Necessary Action

(1) Negotiate and sign new Project Agreement with the MNR

(2) Utilize \$60,000 of FY 1978 funds to finance participant training program for up to three (3) members of the MNR's Horticulture Unit. (3 B.S. programs of 1 1/2 years each)

(3) Utilize \$15,000 of FY 1978 funds for the contracting of the local PSC who will serve as project manager (refer to Section II A)

(4) Utilize \$10,000 of FY 1978 funds for spring 1979 Project Evaluation.

III. Implementation Timetable and Summary Budget

A. Proposed Timetable (1978/79)

<u>Activity</u>	<u>Date</u>
Sign new/revised Project Agreements	September 30, 1978
Negotiate and sign Standard Fruit/MNR contract	October 16
Start crop cycle (fresh produce project)	October 30
AID contracts TA for processed project feasibility studies	November 13
Completion of feasibility studies	December 11
First MNR participant begins training	January 7, 1979
MNR contracts new project manager	February
Second MNR participant begins training	March
Crop cycle ends	April 30
AID contracts TA for Project evaluation of 1978/79 activities	May 15
Evaluation completed/project funding decision made	June 15

B. Illustrative Budget (1978/79)

<u>Item</u>	<u>Cost</u>	<u>Source</u>
Renewal of Standard Fruit contract	\$ 165	FY TQ, 1977
Feasibility studies for Processed Vegetable Project	15	FY 1978
Project manager (local PSC)	15	" "
Participant training (3 B.S.)	60	" "
Project Evaluation	10	" "