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SUMMARY OF THE STATUS OF FHIA'S DEVELOPMENT

AND FUND RAISING PROGRAM

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(Termination report prepared by G. C. Millensted; received at Cornell University July 15, 1988.)

1.1 BACKGROUND

The Honduran Foundation for Agricultural Research (FHIA) was launched on May 15th, 1984. Its creation was the result of coincidence. Structural components comprised the Government of Honduras and AID; both parties were interested in starting an independent, private research organization to contribute to the development and expansion of agricultural research in Honduras and to assist farmers through technology transfer and to respond to the need to increase production and exportation of traditional and non traditional crops.

The third component was the United Brands and its willingness to donate all its facilities of its reknown and long established Division of Tropical Research, including offices, laboratories, land and the world's largest and most advanced Banana and Plantain Breeding Program. In the beginning, the United Brands executives envisioned that its facilities might fit well into the international system of research centers, thus bringing attention to focus on the need Honduras has to update and develop its agriculture.

The one condition made by the then President of the United Brands was that before the donation would be made, evidence of sufficient fund support would have to be shown. AID and the Government of Honduras provided this guarantee and the donation was made.

This report focuses on the fund raising aspects of the Foundation and the direction it has taken toward achieving long term sustainability.

1.2 THE BEGINNING

In the course of preparing the AID documentation for the Agricultural Research Foundation Project (522-0249), meetings were held and a summary financial plan was created which was designed to indicate the sources and total amounts expected to be donated and raised during the first ten-year period. The breakdown of the financial plan was constructed as follows:

Summary Financial Plan  
(US \$000)

Component/Activity	AID	GOH	PRIVATE SECTOR/OTHER DONORS	TOTAL
<u>I. Administrative/Operating Costs</u>				<u>9,190</u>
A. Salaries/other operating exp.	6,185	1,175	1,180	8,540
B. Technical assistance	650	-	-	650
<u>II. Capital Investments</u>	1,060	1,385	675	<u>3,120</u>
<u>III. Experimental Substations</u>	220	150	-	370
<u>IV. Research Programs</u>				<u>12,975</u>
A. Non-traditional export crops	3,470	-	4,420	7,890
B. Traditional export crops	100	775	250	1,125
C. Basic food crops	1,200	1,455	475	3,130
D. Other research operations	770	160	-	930
<u>V. Communications and Development</u>	2,790	900	-	<u>3,690</u>
<u>VI. Technical Analytical Services</u>	2,700	-	-	<u>2,700</u>
<u>VII. Evaluation</u>	200	-	-	200
<u>VIII. Project Liaison Officer</u>	375	-	-	375
<u>IX. Contingency</u>	280	-	-	<u>280</u>
<u>TOTAL</u>	<u>20,000</u>	<u>6,000</u>	<u>7,000</u>	<u>33,000</u>

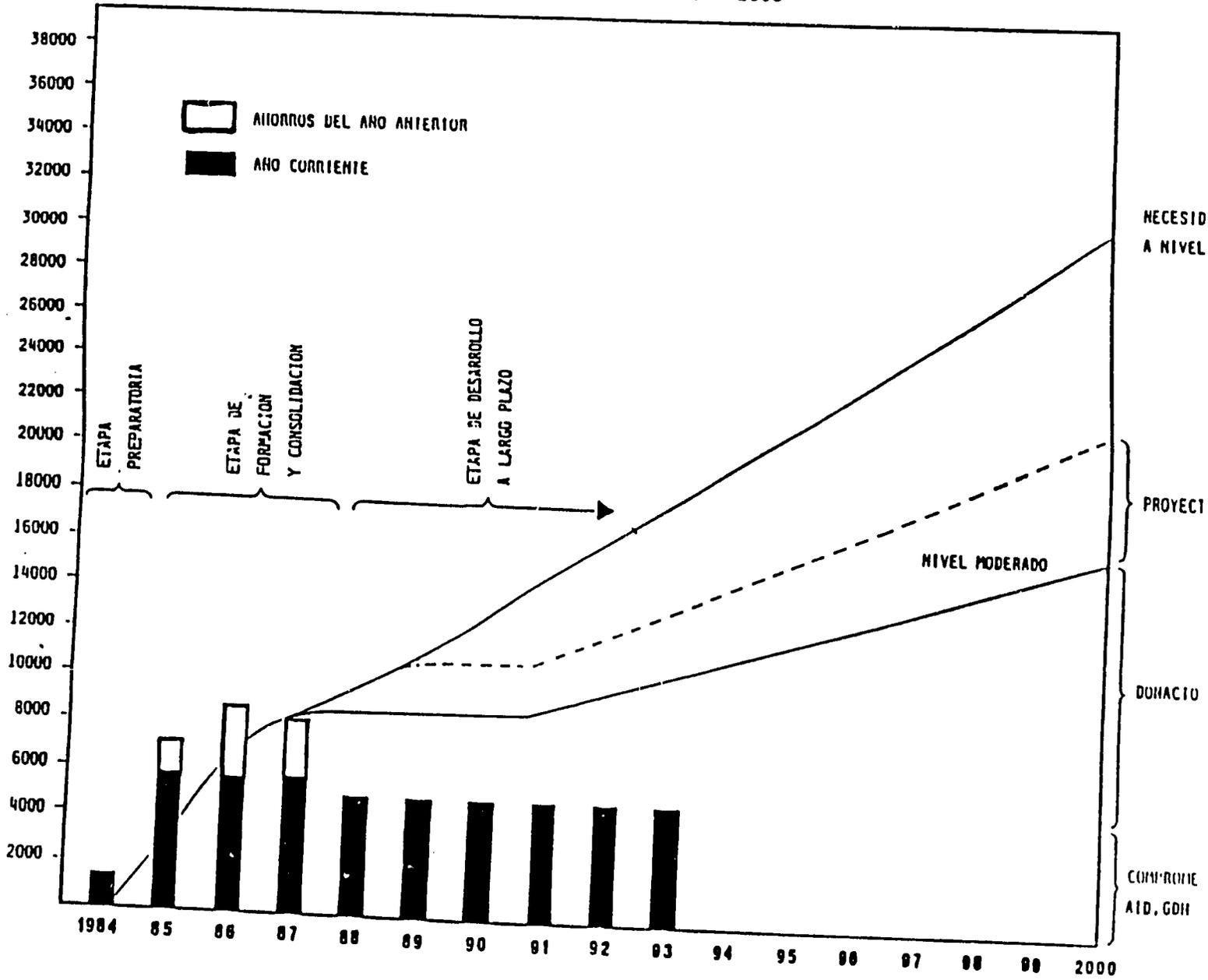
It will be noted that a total of US\$7 million were to be raised from the private sector and other donors. No distinction was made whether these anticipated funds would be core (unrestricted) or restricted for specific projects only. During a Board Meeting later, one member who has considerable experience in fund raising (Dr. Simón Malo) expressed strong reservations regarding FHIA's ability to raise such funds. He considered the amount "unrealistic" for an institution newly created and with no track record.

### 1.3 INSTITUTIONAL DEVELOPMENT

The initial activities of the Foundation, under the direction of an Interim Director General, were to develop the institution in terms of administration, organization, staff benefits, and staff (scientific and administrative) and labor employment. During this build-up period, reserve funds were created and utilized later in 1985 and 1986. Following the appointment of a Director General who took over in September 1985, the institution made further strides toward institutional and organizational completion. Special funds (PL 480) were set aside by the Government of Honduras and AID for the purpose of capital developments such as new buildings and the remodification of existing ones, the purchase of land for experimental farms, etc.

The graph on Fig. No. 1 shows the rate of expenditure and funds that were carried over from the first two years and the projected funds for the following years of the project.

Figura 1. PROYECCION DE NECESIDADES FINANCIERAS Y FINANCIAMIENTO 1988 - 2000



1.4 The rate of development from the end of 1985 onward was fast and this rapid advancement caused a drain on funds available. By early 1987 it was evident that funds allocated for that year and for 1988 would be insufficient. This was due to three primary causes.

(1) More rapid development than anticipated.

(2) Lack of projected funds from donors anticipated in the financial plan.

(3) Insufficient funds originally provided to the project if the goals of the mandate were to be reached.

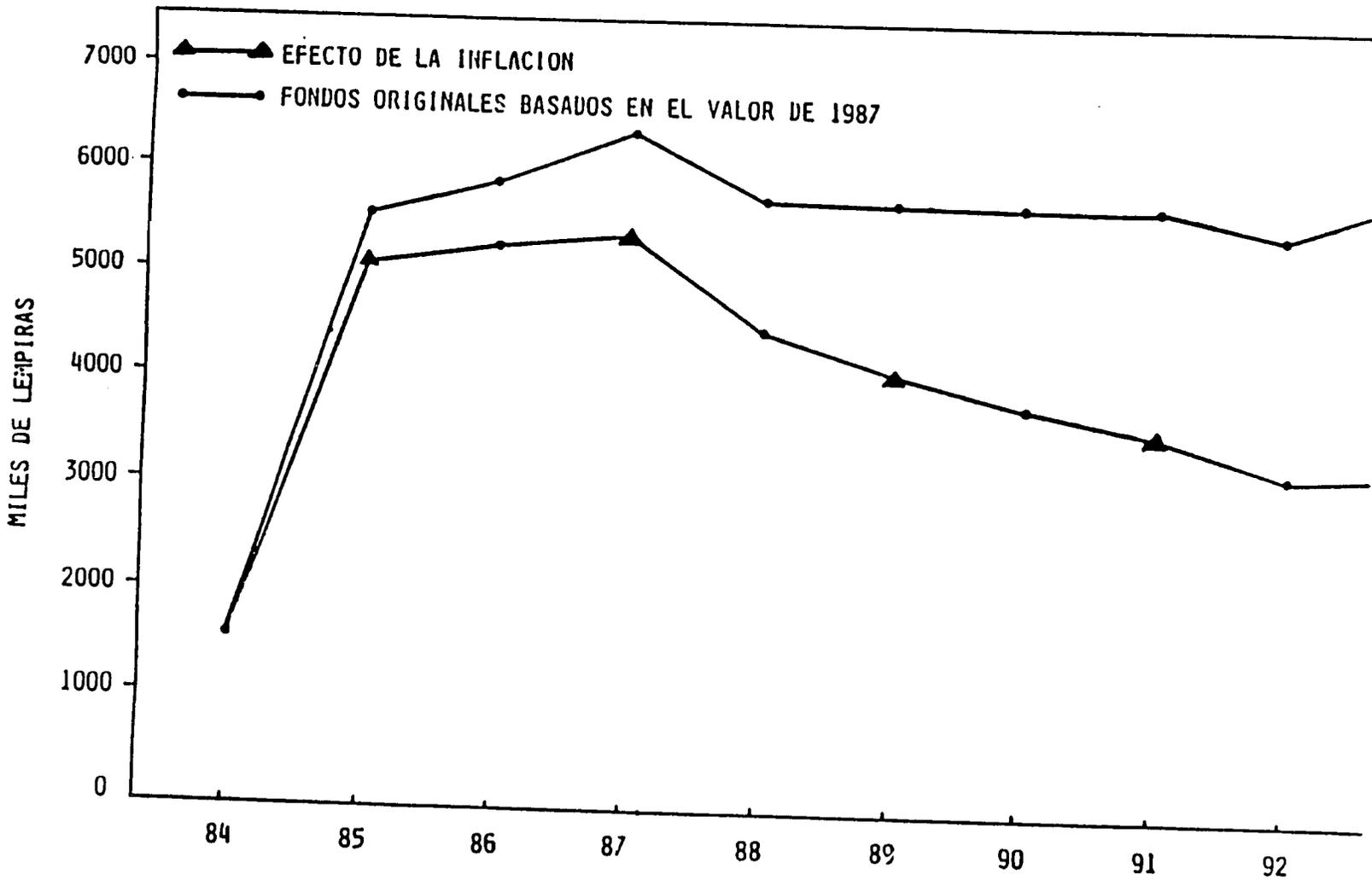
Another factor that became obvious was the effect of inflation on the original grants made. For example, AID's grant of \$20 million is distributed roughly over the 10-year period of the project. (1984 to 1993). The effect of inflation at a conservative rate of 7% has the effect of diminishing the buying power of the Foundation as indicated by the following graph (Fig. 2).

1.5 In view of the above factors, by 1987/1988, the Foundation was already potentially suffering from financial strangulation and emergency action was needed to maintain a consistent standard of development. A development standard in line with the demands on the Foundation by the beneficiaries (farmers of Honduras) was totally out of the question. The situation demanded that a request be made to AID to advance funds from the last two years of the project allocation to support costs generated during

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Figura 2 ..DONACIONES OTORGADAS EN 1984  
(LPS. '000)

EFECTOS DE LA INFLACION  
CALCULADA AL 7% POR AÑO



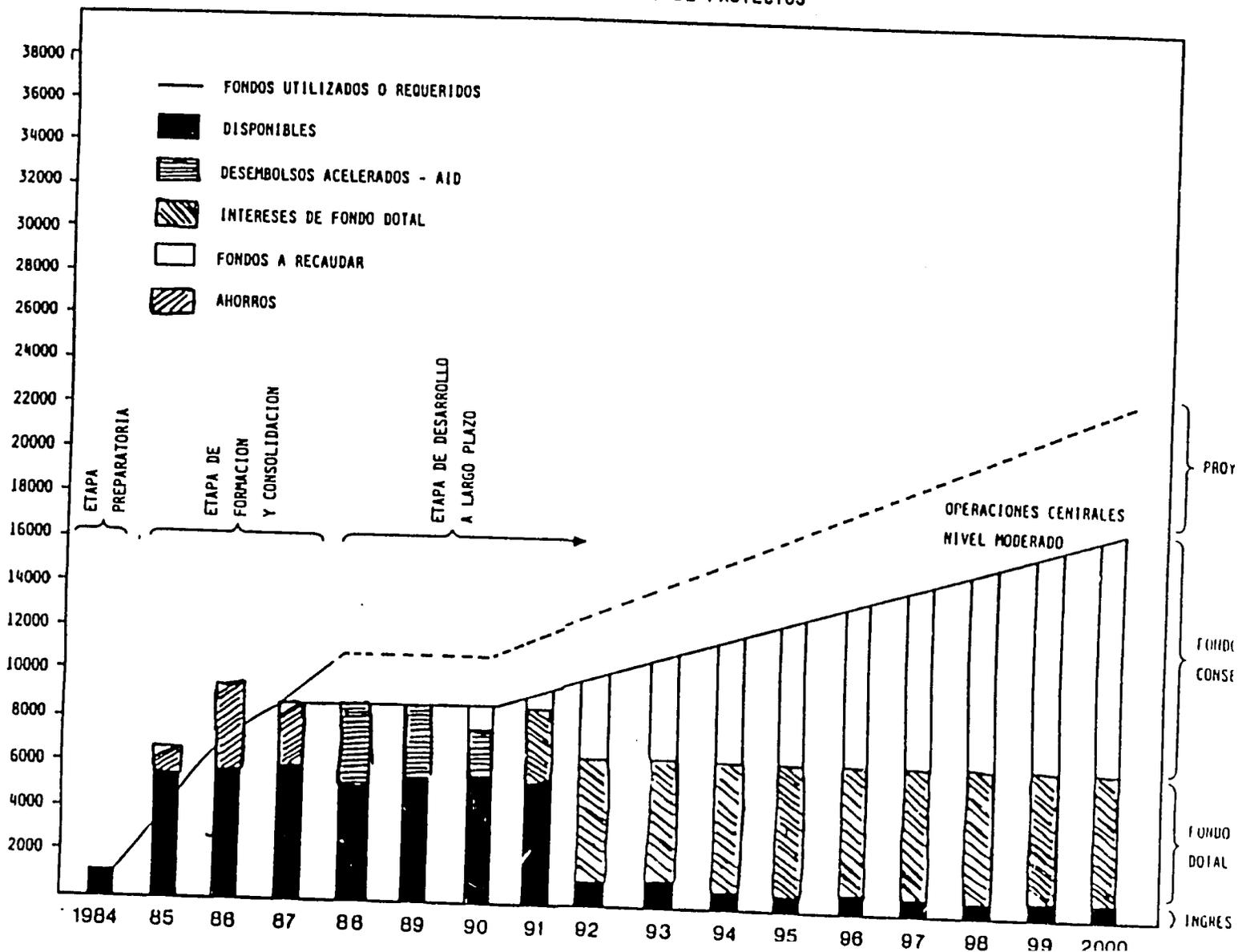
1987/1988. A revised projection was made showing an anticipated development rate to year 2000 at a very modest rate (Fig. 3). Also indicated (dotted lines); is the capacity FHIA would have to accept financing for new projects. Yet, the intention is always to protect the Foundation from becoming too reliant on project funding resources. In the meantime, an acceptable level of overhead charges has been established at 27% on special project funds. These overhead credits will be applied to core needs.

1.6 By late 1986 and early 1987, the urgency for the need to develop fund raising capacity was clearly evident. In accordance with the CTIA contract, capacities toward communications and development were established by AID by the contracting of AED and subcontracting through Cornell University. An expert in communication and extension was employed and a person for the development of fund raising for FHIA was contracted. However, full fund raising activities did not initiate until early 1987. The first months included the establishment of small staff support, orientation, and assistance provided through Cornell University and Winrock International from whom FHIA also draws assistance on fund raising matters.

While the role of the fund raising expert under subcontract with Cornell University was to establish a traditional fund raising role, the position filled by that person was also as Director of Development, in an unofficial capacity, within the FHIA organization. In many ways, the task turned out to be one of part leadership and another of a path finding expedition. The reason for this was that there are perhaps few institutions that

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Figura 3 .FONDOS COMPROMETIDOS 1987, NECESIDADES A NIVEL PLENO,  
A NIVEL MODERADO Y DE PROYECTOS



enjoy the uniqueness of FHIA - especially during its infant years. No track record, no alumni, an isolated national institution, an initial reluctance (by nature) of Hondurans to donate to a national institution, the initial strength or presence of AID support(1), the overall caution of other multinational companies (except United Brands) to contribute to FHIA, and the tendency of U.S. companies to donate only to local or national needs is evident(2).

Because of the above, it became very evident that the process and success of raising funds for FHIA would be a slow and arduous experience.

## 2.1 STRATEGY

Having gained the experience of three years of introducing FHIA to public and private institutions, it became evident that emphasis would be first given to raising funds through public sources and these were established as follows:

- AID - Endowment and possible phase two funding
- EEC - Block funding as well as project support from individual governments
- CIDA - Project and core support. IDRC support for Banana & Plantain Breeding
- JAPAN - Public source funding
- CHINA - Public source funding

(1) A not uncommon attitude as indicated in letter from Consul General of Netherlands. (See Annex)

(2) American Transport Company (bus) (See Annex, quote from Mr. Ted Williams)

Additional funds would be sought through FAO, UNDP, BID and other resource institutions. Progress has already been made with FAO from whom the largest TCP support awarded by FAO was obtained in 1984/85 for the Banana and Plantain Breeding Program. UNDP is presently studying possible support for FHIA's Citrus Program (regional) and a cut tropical flower project.

Decision to concentrate on obtaining funds from public sources was made on account of the following considerations.

(1) The size of the funds needed in the short and medium terms could only be accomplished through the potentially substantial donations made by governments and government agencies.

(2) The priority attention being focused on Central America due to constant political problems. This factor being interpreted as a factor in favor of Honduras obtaining support to its national needs for economic growth and stability.

(3) The Honduran Government would be in a position to endorse FHIA as a priority institution needing support from other governments. However, since governments give to governments, in the main, the Government of Honduras at any time could lower FHIA's priority for assistance if political expediency demanded such. This is one danger of a public sourcing policy.

(4) Through the established excellence for which FHIA is now recognized (and this will be enhanced increasingly with time providing incoming funds are maintained), foreign governments will encourage that the Government of Honduras permits their donated funds to be disbursed to FHIA as a contribution. The Swiss Government might be an example of this case.

The drawback to obtaining public funds is often the time required for requests and documentation to be processed, presented, and approved. This can take up to 2 or more years. There is also the need for the institution (FHIA) to have the capacity for the preparation of the required project requests in accordance with the style and needs of each donor nation or agency.

To fulfill the first stage of this strategy, considerable travel and presentation is required and is being accomplished. Typical to all fund raising strategies, a number of visits to each potential donor are needed in order to establish a clear institutional identity, trust and an appreciation of the considerable progress that has been made by FHIA in a short time. This process needs unfailing patience and can incur substantial cost. This cost has been drawn until recently from dollar project reserves which are becoming increasingly less available.

By the end of 1988, visits will be completed to ASIA (in September) and Europe in November. Preparation for the European visits are well advanced. Part of the preparation for encouraging support from foreign governments is through the embassies and ambassadors of the target countries. In this respect, ambassadors from six countries have visited FHIA as well as two Presidents. Visits from more ambassadors are expected before the end of 1988.

Close relations with foreign governments have paid off, in particular, with the (AID) for specific project support (eg vegetables), the Government of Ecuador (support to the Banana and Plantain Breeding Program) and the United Kingdom Government. The latter will be providing technical assistance for 2-4 years in the field of Post Harvest Research. Most likely, this assistance will be accompanied with a gift of specific laboratory equipment for the project.

- 2.2 During late 1987, the board approved the setting up of a voluntary national fund raising group under the leadership of a prominent and well respected leader, Sr. Jorge Bueso Arias. Sr. Arias accepted this important role and suggestions were made to him in regard to other support candidates who would be able to assist him in his campaign.

Unfortunately, like most of the active national leaders, Sr. Arias is deeply involved in many activities of national calling as well as having to manage his bank. This provides him with limited spare time and for this reason the voluntary group activities have not yet produced the results hoped for.

Sr. Arias will soon be relieved of his representation at the central bank and it is hoped that soon he will be able to concentrate more attention to FHIA's affairs and needs.

### 2.3 REGIONAL AND/OR INTERNATIONAL STATUS

While the principle of having a national agricultural institution might be appealing, for fund raising purposes it is considered as being a potential handicap and restrictive. Governments are more interested, in general, in assisting regional programs rather than isolated countries.

Many features of FHIA are already well suited to the regional quality. This is apart from the International Banana and Plantain Breeding Program which is well recognized for its world role.

FHIA has the potential to play a regional role in Communication, Post Harvest Research, Cacao Farm Management, Laboratory Services (Chemical and Pesticide Analysis), and specific assistance in the disciplines such as in Entomology and banana nutrition where FHIA retains a reserve of special expertise in these fields.

In order to display FHIA's potential role in the regional concept, an excellent prospectus has been created with the assistance of Prof. Ward of Cornell University which clearly portrays FHIA as an institution with the capacity of regional and international impact. The existing project through ROCAP and IICA on the husbandry of Cacao conducted by FHIA is "regional" in scope and has participants from Costa Rica, El Salvador Guatemala, and includes Honduran farmers. The VIP quotes contained on the first page of the prospectus ranging from the President of Honduras, Ambassador Briggs, Lic. Jorge Bueso Arias and Mr. John Sanbrailo, AID Mission leader, all eluded to FHIA's role in the region.

2.4 THE BANANA AND PLANTAIN BREEDING PROGRAM

The high profile of this program can quite easily overshadow the other important programs managed by FHIA - not to mention the need for support of the disciplines and administration. In theory and "word", a satisfactory level of committed support for this program has been obtained. However, as we have quickly learned, the difference between "promised" support from certain governments of Latin America and actual payment of the amounts pledged are different things. Part of this is due to the difficult economic situation all Latin American countries find themselves at present - but this in no way deterred them from making the commitment in the first instance and reaping the usual publicity. The promised donations for this program are as follows.

	<u>Lps. '000 p.a.</u>	<u>Amount Recd. to date 1988</u>
Government of Honduras	300 - 400	nil
Government of Ecuador	120	nil
UPEB	300	nil
Private contributors (farmers)	<u>NA</u>	<u>-</u>
	Lps. 720 - 820	nil

It would not be difficult to generate enough "promised" support to reach Lps. 1 million once individual producer groups are organized. This amount would provide just adequate resources for the next few years. To date, only one payment has been made by the Government of Ecuador covering year 1986, UPEB has also made one payment. As a result, FHIA has to use valuable reserve funds that could be used for other programs such as the now

It is obvious that the methods used to raise funds for the breeding program must follow a different style where non participation can result in serious and real penalties. In the case of this program, FHIA is advised to examine the possibility of obtaining patent rights for its hybrids produced. This can provide considerable stimulation to potential donors, and also offers the opportunity for FHIA to generate substantial funds for core operations. For example, if royalty payments on 270 million boxes of bananas exported worldwide each year of the 350 million total, a US 0.05 rights per box was taxed, an income of \$13.5 million p.a. would be generated. Obviously, that amount per box would be too high and would not be accepted by the exporters. Even at US 0.02/box rights would generate over \$5 million. However, this opportunity will hinge on the ability to identify the hybrids without question. Hence it would be good business sense to pursue this approach quickly:

It is understandable that the possible principal beneficiaries of the breeding program would be the multinational companies such as Standard Fruit Company, Delmonte Fresh Fruit, and the United Brands Company. Yet, there is a clear policy now expressed unofficially by these companies that a disease resistant hybrid (Black Sigatoka) would result in an undisciplined industry that would create a surge in production as a result of independent farmers developing banana farmers and becoming "free lance" marketeers. This event would promote a disruption in the industry, cut throat price schemes and eventual market collapse. The largest would survive, but many Latin

American Governments that depend on banana exports for a major part of these foreign exchange would also suffer the consequences if fruit was not exported but cut down. There is a degree of truth in this opinion. The taming of the banana industry in the past has been accomplished through the inroads of Panama Disease in the 1950's and 1960's and by national catastrophies such as floods and winds. Time has confirmed that the industry (and the countries involved) do not have the capacity or willingness to self regulate production and expansion. Some countries are prepared not to make profits, while retaining the opportunity to earn foreign exchange. The situation boils down to the fact that the big companies will not contribute to the program until they have convincing evidence that the "Eureka" hybrid is a reality and will be available in a few years. At that time, it is expected that the attitude of the "big three" will change 180 degrees.

In the meantime, and while promises by governments to pay are not met - only patience and persuasion can be used. Broadening participation by the WINDWARD island producers and other Caribbean islands is being pursued and, possibly, interest will be forthcoming from Taiwan, where Panama Disease Race 4 is already well established, and Japan where banana consumption is substantial.

As already stated, it is certainly not acceptable that FHIA's Banana & Plantain Breeding Program should be expected to continue by drawing funds from FHIA's own resources, as is taking place now.

Coffee is the major source of foreign exchange in Honduras. In years of poor production or particularly low prices, the position can submit to bananas which is always a close second. The coffee industry in Honduras counts on thousands of small farmers (1-5 mzs.) and a fair number of medium size farmers (6-25 mzs.) and very few large farmers. Production of the small peasant farmer is very low and survives mainly due to family labor input. Little technology reaches the small farmers and there exist no really valid husbandry and fertilization recommendations despite the considerable amounts of fertilizer being applied by some "blindly" each year. Certainly, the government supported IHCAFE (through a high tax per sack of coffee) is sadly ineffective in providing technical support to the growers.

Recently a major step forward has been taken when the president and management members of APROCAFE (a private coffee grower association) representing the majority of the coffee growers in this country, met at FHIA on June 24. At that meeting it was agreed to set up a committee to study and agree upon the areas in which FHIA could provide technical assistance and recommendations to the growers through APROCAFE. These areas will most likely include recommendations for fertilization in each sector of the country - gathered from results of well established fertilizer trials on producers farms (medium/large farms) - also disease control, herbicide trials and basic crop husbandry. APROCAFE, a powerful organization which is disillusioned by the government's efforts to assist farmers

through IHCAFE, will probably propose that part of the existing cess levied against each sack exported be directed to FHIA for support of this vital work. At Lps. 2.00 per sack of coffee exported (2 million p.a. approximately) this would provide FHIA with an annual budget for this project of more than Lps. 4 million.

A proportion of this (to be negotiated) would be allocated to support FHIA's core needs.

## 2.7 CONCLUSION

FHIA's fund raising and development operation has found a course and character of its own that is capable of meeting the demands of the future. As FHIA matures, the task of finding financial support will become easier. FHIA will be known and recognized as an agricultural research and development institution of excellence that is fully accountable for its progress and survival. This survival will depend entirely on its professionalism and continued ability to produce results of the highest quality. FHIA should be known as an institution having little patience with unnecessary bureaucracy. An institution that employs every "buck" to the task for which it is commissioned.