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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

HONDURAS

PROJECT PAPER

SMALL FARMER AGRIBUSINESS DEVELOPMENT

AID/LAC/P-733

PROJECT NUMBER: 522-0383

UNCLASSIFIED

APPENDIX 3A, Attachment 1
Chapter 3, Handbook 3 (TM 3:43)

AGENCY FOR INTERNATIONAL DEVELOPMENT		PROJECT DATA SHEET		1. TRANSACTION CODE A A = Add C = Change D = Delete		Amendment Number		DOCUMENT CODE 3	
COUNTRY/ENTITY Honduras				3. PROJECT NUMBER 522-0383		5. PROJECT TITLE (maximum 40 characters) SMALL FARMER AGRIBUSINESS DEVELOPMENT			
4. BUREAU/OFFICE USAID/Honduras				6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 11 30 97		7. ESTIMATED DATE OF OBLIGATION (Under "B" below, enter 1, 2, 3, or 4) A. Initial FY 92 B. Quarter 3 C. Final FY 95			
8. COSTS (\$000 OR EQUIVALENT \$1 =)									
A. FUNDING SOURCE			FISCAL FY 92			LIFE OF PROJECT			
			B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total	
AID Appropriated Total			399		399	6,100	400	6,500	
(Grant)			(399)	()	(399)	(6,100)	(400)	(6,500)	
(Loan)			()	()	()	()	()	()	
Other U.S.									
1.									
2.									
Host Country									
Other Donor(s)							6,500		6,560
TOTALS			399		399	6,100	6,960	13,060	
9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1)						6,500		6,500	
(2)									
(3)									
(4)									
TOTALS						6,500		6,500	
10. SECONDARY TECHNICAL CODES (maximum 8 codes of 3 positions each)								11. SECONDARY PURPOSE CODE	
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)									
A. Code									
B. Amount									
13. PROJECT PURPOSE (maximum 480 characters)									
To increase production, value-added processing and agricultural exports of participating farmer-owned businesses.									
14. SCHEDULED EVALUATIONS						15. SOURCE/ORIGIN OF GOODS AND SERVICES			
Interim		MM YY		MM YY		Final		MM YY	
0 2 9 4		0 9 9 5		0 2 9 7					
						<input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify)			
16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)									
17. APPROVED BY		Signature		Marshall D. Brown		Date Signed		MM DD YY 10/4/11 09/21	
		Title							
		Mission Director		USAID/Honduras					
						18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION			
						MM DD YY 			

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**ANNEX E
PROJECT AUTHORIZATION**

PROJECT AUTHORIZATION

Name of Country: Honduras
Name of Project: Small Farmer Agribusiness Development
Number of Project: 522-0383

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Small Farmer Agribusiness Development Project for the Republic of Honduras ("the Cooperating Country") involving planned obligations of not to exceed Six Million Five Hundred Thousand United States Dollars (\$6,500,000) in Grant Funds over a five year and eight month period from the date of initial obligation, subject to the availability of funds in accordance with the AID OYB/Allotment process, to help in financing foreign and local currency costs for the Project.

2. The project will focus on increasing agricultural production, value-added processing and foreign exchange earnings of farmer-owned businesses in Honduras. It will work with a universe of farmer-owned businesses, and will assure that these organizations are financially and managerially sound institutions. In addition, the project will assist these groups to expand their business activities and increase services to farmer members. Agricultural service cooperatives and federations of such cooperatives will be the principal farmer-owned businesses participating in the project. The project will be executed under the auspices of the Ministry of Economy and the Ministry of Finance and Public Credit. Direct implementation will be carried out through the Financial Development Foundation, a development finance institution, and through an Agribusiness Investment Unit.

Project funds will be used to finance technical assistance, commodities and training activities which promote increased agricultural production, foreign exchange earnings and employment opportunities for Hondurans. Project Management costs as well as periodic evaluations and audits will also be financed by funds authorized herein.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with AID regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as AID may deem appropriate.

4. Source and Origin of Goods of Commodities, Nationality of Services

Commodities financed by A.I.D. under the Grant shall have their source and origin in the United States or countries of the Central American Common Market, except as A.I.D. may otherwise agree to in writing. Except for ocean shipping, the suppliers of commodities or services shall have the

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ANNEX E
PROJECT AUTHORIZATION

United States or countries of the Central American Common Market as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree to in writing, be financed only on flag vessels of the United States.

Non-U.S. procurement is authorized in accordance with the Agency Buy America guidance up to an aggregate amount of Six Hundred Forty Thousand United States Dollars (\$640,000), or other amount as A.I.D. may agree in writing. Of this amount, an estimated \$400,000 will be local procurement for services in project management, secretarial support, studies, and audit costs, and \$240,000 will be for third country training and observational tours. None of the currently planned local or third country procurement requires a waiver under the Buy America guidance. If, however, during implementation of the project, a local or third country procurement transaction is proposed that requires a waiver under the Buy America guidance, such waiver will be obtained before proceeding with the procurement.

5. Conditions Precedent to Disbursement

First Disbursement

Prior to the first disbursement of the Grant, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (1) An opinion of the Attorney General of the Republic or of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of the Grantee and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;
- (2) A statement of the names of the persons authorized to act on behalf of the Grantee, and a specimen signature of each person specified in such statement.

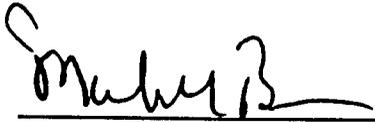
6. Covenants

- a. The Cooperating Country shall make every effort to ensure that counterpart funds are available in a timely and satisfactory manner. Likewise, the cooperating country shall provide A.I.D. with quarterly reports on the provision of counterpart contributions. These reports shall be provided no later than 30 days after the end of the quarter. Should the Cooperating Country fail to make available amounts designated in the budget or fail to make those amounts available in a timely and satisfactory manner as determined

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ANNEX E
PROJECT AUTHORIZATION

by A.I.D., A.I.D. may suspend assistance to one or more project activities until such time that AID shall determine that the assistance may be continued or that one or more of the project activities shall be terminated.



Marshall D. Brown
Mission Director
USAID/Honduras



Date



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(522-0383)

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SUMMARY

The Small Farmer Agribusiness Development project (SFAD) will be a five year eight month effort with an authorized life of project funding of \$6.5 million. The Government of Honduras (GOH) will provide additional project support equivalent to \$6.560 million. The purpose of the project is to increase production, value-added processing, and agricultural exports of participating farmer-owned businesses. The project will use a private sector strategy to restructure farmer-owned businesses and to promote expanded investment by these organizations. The GOH will implement the SFAD project through the Financial Development Fund (FDF), the American Institute for Free Labor Development (AIFLD), and an Agribusiness Investment Unit.

I. BACKGROUND AND PROBLEM

Honduras is one of the poorest countries in the Western Hemisphere with a 1990 GDP per capita of approximately \$480. Agriculture is the dominant economic force in the country, providing the majority of the country's export earnings and employing over 50% of the economically active population. However, agriculture performed relatively poorly in the past decade with an average annual growth rate of only 1.8%. Despite significant growth in non-traditional exports such as shrimp and melons, producers continued to be constrained by irrational agricultural pricing policies, inadequate natural resource management and lack of access to markets, technology, financial services, information and inputs.

The dismal situation described above is further complicated by the fact that over 90% of Honduran agricultural producers have holdings less than 7 hectares (10 manzanas) and earn less than \$600 per year. The present fragmented sectoral structure and low level of available resources impede the ability of individual farmers to obtain information, new technologies and the necessary production inputs and services from either private or public sector sources. In response to these needs, AID, other donors and the GOH over the past three decades have utilized a variety of state-centered approaches to helping farmers overcome these access problems. These efforts have had mixed results, with a majority of assistance not reaching the intended beneficiaries. Many farmers have tried to resolve their access constraints by combining forces and organizing themselves into jointly-owned farmer businesses. These farmer-owned businesses (FOBs) are cooperatives and producer associations that provide their member/owners with agricultural services, manage input supply stores, provide production credit, technical assistance and training, negotiate marketing deals for members, and pack, process or market members' produce. Having survived the cycles of world markets and donor vagaries, these FOBs represent practical channels for reaching significant numbers of members or producers in a cost-efficient manner.

USAID recognizes the inherent strengths of these private sector institutions, and therefore will pursue a private sector, market oriented approach under the SFAD project by working with specific FOBs to increase production, value-added processing and foreign exchange earnings. Since the late 50's, the GOH has registered over 700 cooperative and farmer association organizations. Of these, experts estimate that fewer than 100 are, or could become, viable, profitable business enterprises. The project anticipates working with the strongest 30 to 40 of this group which have the demonstrated productive and managerial capacity to make substantial gains during the life of the project. Based on an analysis

detailed in ANNEX D, the project will work primarily with FOBs associated with the Association of Honduran Coffee Producers (AHPROCAFE), the Union of Agricultural Service Cooperatives (UNIOCOOP), and the National Association of Campesinos of Honduras (ANACH). Other groups which demonstrate outstanding potential for achieving project goals may also qualify for participation during the life of the project.

Individual cooperatives affiliated with the federations above must also demonstrate a strong potential for obtaining production, foreign exchange and investment goals during the life of the project. Weaker cooperatives of the above mentioned groups will not automatically qualify for project assistance. By using this screening process, it is anticipated that scarce project resources can be efficiently targeted to productive FOBs.

II. RELATIONSHIP TO AID AND COUNTRY PROGRAMS

One of USAID/Honduras' current strategic objectives is to increase agricultural investment, production and exports. The SFAD project will directly contribute to this objective through its focus on production and foreign exchange earnings. By increasing farmer or producer access to markets, services and technology, the SFAD project will position FOBs to take advantage of new business opportunities, thus increasing investment and trade activities. The project is also consonant with the Agency's Central American Strategy which focuses on the need for both policy reforms and specific activities to overcome constraints such as poor market information, insufficient technology development and transfer in order to achieve vigorous private sector-led growth. The SFAD project will seek changes in the delivery of services and technology which will complement concurrent Mission policy reform efforts being carried out through the PL-480 Title III, ESF Balance of Payments, and Policy Analysis and Implementation programs.

GOH strategy for the agriculture sector is defined in an Agricultural Modernization Law currently before the National Congress. This law seeks to reactivate the agricultural sector through broad operational and institutional changes. The law recognizes the importance of private sector leadership in the productive sector and sets the stage for a major revision of the agrarian reform program. The SFAD project is responsive to the needs of the sector and fully supports the changes proposed in the Agricultural Law.

Other donors such as the Interamerican Development Bank, the European Economic Community, the Interamerican Development Foundation and the Canadian International Development Agency are carrying out programs in Honduras and throughout Central America which complement the activities proposed for the SFAD project. These other donors are working with small-scale producers and cooperative businesses in activities that support but do not duplicate SFAD project activities.

It should be noted that the SFAD project design began as a follow-on to the ongoing Small Farmer Organization Strengthening (SFOS) project activities. At the PID stage, the SFAD project's strategy concentrated on the institutional development needs of both agricultural service cooperatives and credit unions as the means to achieve long range sustainable growth. However, during project paper development the Mission modified the project strategy to focus on

increasing agricultural production, exports and foreign exchange earnings. The project proposes to work with FOBs that have the potential to contribute to these goals. This revised strategy, therefore, excludes credit unions and some farmer-owned cooperative businesses which are not expected to contribute significantly to these goals.

III. OBJECTIVES

The goal of the SFAD project is to increase private sector productivity, investment and trade. The project purpose is to increase production, value-added processing and agricultural exports of participating FOBs. The following conditions will exist at the end of the sixty-eight month life of the project:

- Estimated average production gains of 30% to 40% for melons, rice, corn and coffee.
- Foreign exchange earnings for FOBs will increase by approximately \$15 million.
- Value-added processing of FOBs will increase by approximately \$10 million annually.

The SFAD project is expected to have an Internal Rate of Return (IRR) of 46% and a Net Present Value (NPV) of \$11.09 million. The foreign exchange benefit is estimated to be \$17.08 million and the total employment gain to be 18,874 person years during the five year eight month life of the project. Member-producer farm income is expected to increase by 15% to 30%, based on an analysis of impact studies done under the SFOs project.

Major outputs and related indicators which will contribute to achievement of the project purpose and the achievement of the targets stated above are:

<u>Output</u>	<u>Indicators</u>
1. 30 - 40 FOBs providing increased services to members in a sustainable manner.	a. Coffee discount for project producers reduced approximately 70% from \$10/qq to \$3/qq. b. Input distribution costs reduced 23%. c. Coffee, rice, and melon processing costs reduced 25%.
2. Increased financial viability of participating FOBs.	a. 90% of participating FOBs operating at a profit compared with less than 46% in 1991. b. FOB product sales increase by 50% for melons, rice, coffee and corn. c. FOB member equity and reserves equal 30% of FOB assets compared with 13% in 1990.
3. 30 - 40 new agribusiness investments undertaken by FOBs and coop federations.	a. 30 - 40 investments operational. b. Approximately 50 feasibility studies completed. c. Investments have ROIs of at least 15% expressed in dollars.

4. Approximately 10,000 jobs generated.
 - a. Approximately 10,000 new full time equivalent jobs will be generated through expanded production, processing and input supply activities carried out by participating FOBs and their members/owners. This will increase total employment from about 21,000 to about 31,000.
5. Participating federations operating at a profit.
 - a. Profitability of federations (ROE) is at least 35%.

IV. PROJECT DESCRIPTION

The project will achieve its purpose by improving and expanding the Honduran private agribusiness sector's capability to deliver inputs, technology, information and produce processing services to small and medium sized farmers. Since Honduran agriculture is primarily a small-scale farmer enterprise, the project will work primarily with farmer-owned businesses (FOBs) such as cooperatives and their federations. However, not all FOBs are currently viable business enterprises. Many suffer from managerial and administrative weaknesses as well as from fundamental financial problems. Therefore, the project will strengthen the capabilities of 30 - 40 FOBs to provide services to their members and by stimulating these strengthened FOBs to make 30 -40 new investments in input supply and processing businesses.

The above targets can be achieved because of the Mission's previous five year experience with FOBs under the Small Farmer Organization Strengthening (SFOS) project. Of the target of 30 - 40 participating FOBs, 25 FOBs will have already been completely or partially strengthened under the SFOS project by the time the SFAD project begins. An additional 5 - 15 FOBs will become eligible for project Strengthening activities during the life of the project. Of the target of 30 - 40 new investments, approximately 8 FOBs are presently ready to expand services by making new investments in input supply or processing services, and an additional 17 will be ready to do so shortly after the SFAD project is underway. An additional 5 - 15 FOBs will enter into new investments once they have completed the necessary management and financial strengthening activities.

The SFAD project will use a two stage implementation strategy to achieve its objective. First, it will continue and expand upon the institutional Strengthening activities begun under to SFOS project to restructure FOBs. Then it will carry out project Growth activities with those strengthened FOBs that demonstrate the potential to make significant contributions to production, value-added processing and foreign exchange earnings. These two stages are essential and intertwined. Without the management and financial restructuring which take place as part of the Strengthening component, FOBs will not be positioned to take advantage of new business opportunities in the Growth component. Likewise, the progression to the project's Growth component is essential if the agricultural sector is to fulfill its potential contribution to the Honduran economy.

FOBs often have the potential to increase production and expand operations and services, but are too financially and managerially weak to do so. The SFAD project will strengthen these FOBs by helping them rehabilitate their managerial

and financial structures, thereby helping them to develop the operating base required for growth. Project Strengthening activities will use operational support grants, training, and market rate financial stabilization loans to fortify the FOBs.

Once the FOBs have been sufficiently strengthened, they will be ready to take advantage of opportunities for growth. The SFAD project will help the FOBs identify, plan and move into new business activities. The project will create a temporary Agribusiness Investment Unit to coordinate this component, and to provide technical services to FOBs ready to move into new business areas.

A. Strengthening

Management Restructuring - The Strengthening component of the SFAD project will carry out Management and Financial Restructuring of 30 - 40 farmer-owned businesses. Management Restructuring requires participating FOBs to make fundamental changes in their managerial and administrative operations. All project FOBs will participate in Management Restructuring activities. Agrarian reform cooperatives (CARs) affiliated to ANACH will need special assistance in this area. For these CARs the project will include additional support through the American Institute for Free Labor Development (AIFLD).

The Management Restructuring process involves a diagnostic stage in which the FOB works with the FDF or AIFLD to identify weaknesses and areas for change. Once the diagnostic is carried out, the FOB and FDF/AIFLD will develop a five-year plan for institutional change. Agreement on this development plan is a cornerstone of project success and a prerequisite to further project participation. Formal consensus is recognized through a Management Restructuring Agreement which sets forth the conditions for project support to the FOB and specifies financial, operating and capitalization bench marks that the cooperative must meet during the life of the agreement. The agreement will focus on the adoption of sound, businesslike management practices, including but not limited to the following:

- the adoption of strict lending policies with members;
- the installation of accounting and budget control systems;
- the development of professional staff capabilities and adequate personnel policies;
- the development of member capital participation programs; and,
- the creation of sufficient reserves to develop a shield against financial setbacks.

One of the keys to successful Management Restructuring is the involvement of the FOB Board of Directors and management in all stages of the restructuring process. The Board of the FOB reviews and approves each stage of the process from the diagnostic to the development plan to the Restructuring Agreement. This ensures that members are informed and share in the decision-making process for their business. If the FDF identifies that the FOB Board and management are part of the problem, those changes must take place before an agreement is reached.

Financial Restructuring - Once FOBs have demonstrated their commitment and capacity to carry out the managerial reforms contained in the Management Restructuring Agreement, they may become eligible to participate in the project's Financial Restructuring operations.

Financial restructuring of some FOBs is necessary to resolve underlying financial problems and overcome heavy existing debt burdens. Financial restructuring allows an institution the opportunity to regain its solvency, improve its operating efficiency and maintain liquidity. This tool will be used by the SFAD project only when an in-depth analysis by the FDF determines that the economic costs of stabilizing a FOB are less than the benefits and potential impact of that FOB to the Honduran economy.

While a variety of financial restructuring mechanisms can be used to normalize the financial position of FOBs, the SFAD project will continue to use the mechanisms of the SFOS project including: liquidation of the FOB or elimination of nonperforming assets, debt moratoria or forbearance conditions, debt restructuring, consolidating creditors, interest or principal buy-downs, loan guarantees, and long-term loans. The SFOS project implemented seven financial restructuring operations of FOBs, and enjoyed considerable success with interest and principal buy-downs. The SFAD project will use these and other mechanisms, as dictated by the financial circumstances of each FOB. It is expected that of the 30 - 40 FOBs that undergo management restructuring, approximately 20 will require financial restructuring operations under the SFAD project in order to become eligible for Growth activities.

Financial restructuring resources will be lent to participating FOBs at market interest rates and therefore constitute quasi-credit operations. The GOH will provide all financial restructuring resources through its counterpart contribution. In order to align the use of these resources with Agency and Mission Financial Markets Development policy and to reduce distortions in financial markets operations, the following criteria will guide implementation:

- Interest rates will be market based and periodically adjusted;
- Financial Restructuring Agreements will not exceed five years;
- Equity to assets ratio of 35% will be the maximum target of financial restructuring; and
- Up to 20% of the original principal may be forgiven in the final year of the agreement if the FOB sustains compliance.

Additional information on financial stabilization operations and detailed financial estimates are contained in ANNEX D.

B. Growth

When FOBs achieve successful management and financial restructuring they will be ready to move into the next logical business phase - expanded operations. The Growth component of the project will help FOBs identify and take advantage of business opportunities. The specific route an FOB may take to increased business activity will be determined by its current line of business, the availability of investment capital, risk standards, and market conditions. FDF will coordinate

overall Growth activities, but the technical assistance team will form an Agribusiness Investment Unit which will work directly with the FOB and its federation with the objective of transferring business development technology during the life of the project.

The SFAD project will encourage FOBs to avoid the pitfalls in moving into Growth activities without a sufficiently strengthened base by requiring prior FDF approval of an FOB's participation. The FDF's approval will be based on the following:

- 3 year history of membership, sales, assets and equity growth;
- Active member capitalization program;
- Minimum equity and reserves to assets ratio of 20%;
- Satisfactory accounting and administrative systems; and
- Strict credit policies for loans to associates.

Once participating FOBs have passed this threshold, the SFAD project's Growth component will provide assistance in assessing which investment opportunities best match their business needs. Using a specialized screening methodology, FOBs will review or develop strategic business plans, prioritize opportunities and conduct feasibility studies for selected projects. This three step process requires the participation of the FOB's Board and management as well as expert technical assistance from an outside contractor.

In developing a strategic business plan, the FOB will look at the three primary agribusiness stages associated with its line of business - raw material (production), process (value added), and market. When an exhaustive list of opportunities is developed, the FOB will prioritize these opportunities using criteria such as profitability, labor impact, and level of technology or initial investment required. Once the FOB has developed a short list of potential projects, it will select the top one or two for more in-depth analysis. The SFAD project, working through the Agribusiness Investment Unit and with the FOB, will develop feasibility studies for selected projects.

For a business opportunity to receive further project support beyond the feasibility study stage it must meet specific criteria. The study must show that the potential investment:

- will result in a positive net present value at market interest rates;
- will increase the FOB's equity/assets ratio;
- can be implemented without creating liquidity shortfalls in ongoing FOB operations;
- will positively impact employment in the target area; and
- may increase foreign exchange generations.

Based on the results of the feasibility study and fulfillment of the criteria outlined above, the FOB will pursue financing either from external creditors, joint ventures, or increased member capitalization programs. Project-financed technical assistance will be essential in determining not only viable investment alternatives, but also selection of methods of financing, and the preparation and packaging of business opportunities for creditors or investors.

Areas of Growth Opportunities - FOBs participating in the SFAD project provide a variety of services to members that center around input supplies and agro-processing. Expanding these services will be the most likely opportunities for new business activities. Each FOB will make investments based on information developed through the investment screening and feasibility study process.

At present, many FOBs sell input supplies to their members. In expanding this business area FOBs may consider investments such as: the construction of a fertilizer blending plant, the construction of a seed treatment facility; the construction of storage facilities and additional retail outlets for farm supplies; or the development of farm equipment services. Transportation services and the leasing of warehouse space for farm products offer other service possibilities.

Agro-processing, though relatively undeveloped in Honduras at present, has great potential for FOB growth. Coffee processing is of particular importance to project FOBs given its overall contribution to export earnings and the fact that most Honduran coffee is grown by small scale producers in relatively isolated locations. At present, the international coffee markets discount Honduran coffee about \$10 per hundredweight (cwt) due to poor quality. This discount is due to poor and delayed processing. This widespread need presents FOBs in the coffee business with special opportunities for investment in expanding processing and marketing services. Once the basic first stage processing constraints are resolved, further value-added possibilities exist in the processing of instant coffee and the development of "gourmet" coffees for specialty markets.

Other crops currently grown in Honduras also offer profitable processing opportunities. For example, a feasibility study for a cashew processing facility estimates that it will require a L.2,000,000 investment, generate a 30% rate of return, employ over 70 people and generate \$260,000 in foreign exchange earnings each year. Other opportunities abound in fruit packing, vegetable and fruit freezing and drying, and processing of sesame seed, rice and cotton seed. One melon cooperative recently invested \$950,000 in an additional export packing line. The expected rate of return exceeds 50%, and allows the business to export an additional 150,000 boxes annually which will generate \$600,000 in foreign exchange earnings. These types of investments add value and expand marketing opportunities of the FOB member-owners while creating new profit centers for the FOB. See ANNEX D for a fuller discussion of business investment opportunities.

V. COST ESTIMATES

The SFAD project will cost \$13.06 million. AID will invest \$6.5 million from the Food and Nutrition functional account and the GOH will provide the equivalent of \$6.560 million in Host Country Owned Local Currency associated with the PL-480 Title III program. A summary budget follows. Additional financial information is provided in ANNEX F.

COMPONENT	AID	GOH (\$000)	TOTAL
TECHNICAL ASSISTANCE	\$3,944	0	\$ 3,944
TRAINING	625	454	1,079
COMMODITIES	517	0	517
EVALUATION	300	0	300
AUDIT	125	0	125
PROJECT MANAGEMENT	989	0	989
MANAGEMENT RESTRUCTURING	0	2,962	2,962
FINANCIAL RESTRUCTURING	0	3,144	3,144
TOTAL	\$6,500	\$6,560	\$13,060

VI. IMPLEMENTATION ARRANGEMENTS

A. Obligating Instruments

The SFAD project will be executed through a Handbook 3 Bilateral Grant Agreement with the Government of Honduras. The Government of Honduras will be represented by the Ministry of Finance and the Ministry of Economy. The conditions and covenants that will form part of the Agreement are presented in ANNEX I.

AID Role and Responsibility - USAID's Office of Agriculture and Rural Development will manage the SFAD project. The Chief of the Agricultural Export Division will be the USDH Project Officer assigned overall responsibility for the SFAD project. The Project Officer will supervise a USPSC Project Manager and FSN Assistant Project Manager who will oversee daily project management activities. AID will obligate authorized funds in an incremental manner during the life of the project.

Government of Honduras - The GOH will provide its counterpart funds for management and financial restructuring in a timely manner. In addition, representatives of the Ministry of Economy and the Ministry of Finance and Public Credit will serve on the Board of the FDF.

B. Implementing Agencies

Financial Development Fund (FDF) - The principal implementing agency for the SFAD project will be the FDF, a development finance institution established in 1987 under the SFOS project. The FDF has an established track record of successful interventions with cooperative businesses and has demonstrated an ability to promote business development while maintaining the conditionality required for management and financial restructuring.

The FDF will have primary responsibility for implementation of the Strengthening component. It will carry out financial analyses of participating FOBs, assess managerial strengths and weaknesses, install financial and accounting systems, negotiate workout plans with FOBs and lenders, and monitor the terms and conditions of restructuring agreements. In addition, the FDF will manage the project's information system for both Strengthening and Growth activities. The

FDF will ensure the distributor of relevant information to the Agribusiness Investment Unit, AIFLD, and the GOH.

The FDF will receive GOH counterpart for the SFAD project, with the exception of the grant to AIFLD noted below. It will disburse funds directly to FOBs or creditors as required. A recent analysis of the FDF's financial and internal controls indicates that while the existing system is fundamentally sound, some modifications are required, most particularly with regard to internal controls and administrative procedures. These recommendations will be closed prior to GOH disbursement of funds to the FDF under the SFAD project. Further information on the FDF is provided in ANNEX J.

American Institute for Free Labor Development (AIFLD) - The GOH, through a separate local currency grant with AIFLD, will implement Strengthening activities with Regional Agricultural Cooperatives (CARs) of ANACH. AIFLD is currently carrying out a similar program under a direct local currency grant from AID. Further information on AIFLD can be found in ANNEX J.

AIFLD will provide preparatory Strengthening assistance to CARs, which upon completion of the program with AIFLD will graduate to the FDF-sponsored activities of the project. Four CARs are expected to enter the FDF's Strengthening program within the first year of the project, and at least another five CARs will qualify for FDF assistance during the next two years. The GOH, AID and AIFLD will sign a tripartite Memorandum of Understanding which provides local currency financing for the AIFLD activities.

Agribusiness Investment Unit - AID will contract for implementation of Growth activities through a temporary Agribusiness Investment Unit. The technical assistance team will staff the unit and will work directly with the FDF and participating FOBs. The unit will carry out feasibility studies, assist FOBs in loan request preparation, search for alternative sources of investment financing, and carry out technical training related to new business opportunities. The Unit's technical skills and knowledge will be transmitted to cooperative organizations and federations by the PACD.

C. Procurement Plan

The authorized source, origin and nationality of goods and services procured under the SFAD project is the United States and the Central American Common Market. Project financed goods and services will be procured in accordance with relevant AID Handbooks, AID Acquisition Regulations, and the Federal Acquisition Regulation as applicable. Local procurement will be carried out in accordance with the procedures of Handbook 1B. In addition, the project will comply with the Agency's rules and procedures for Gray Amendment procurement.

AID will execute a performance-based completion contract with an institutional contractor to provide technical assistance for the Strengthening and Growth components, training services, manage observational tours, and procure project financed commodities. The institutional contractor will assist the FDF and establish the Agribusiness Investment Unit. Further information on technical assistance can be found in Annex G.

AID plans to contract directly for the services of a Project Manager, an Assistant Project Manager and project secretary. In addition, AID will contract for periodic audits and evaluations as required to monitor project performance. Additional information on project procurement is provided in ANNEX G.

VII. INFORMATION SYSTEM AND EVALUATION PLAN.

Information System - The FDF will manage the SFAD project information system. The information system will build on the existing system developed under the SFOS project. Primary users will be FDF management, FDF Project Managers, Agribusiness Investment Unit personnel, participating FOB managers, and AID Project Management.

As a tool for project management and monitoring, the information system will measure progress toward project objectives. The information system will update the baseline data compiled during the execution of the SFOS project. This updated baseline information will include gender-desegregated data and family level indicators to the extent possible. In addition, the project will maintain a data base related to the financial and operating efficiency of project participants. This data will be used to modify project indicators as required during the life of the project.

The information system will generate monthly, quarterly, and semi-annual reports. Input into the information system will come from the FDF, project monitoring and site visits, as well as direct information from participating FOBs. The SFAD Information System is described in greater detail in ANNEX H.

Evaluation Plan - While the information system described above will provide ongoing information on project progress, SFAD will also use specific evaluations and studies to measure overall impact and achievement of stated objectives. The project will finance detailed midterm and final evaluations. The midterm evaluation will use available information to determine progress and recommend any required modifications to the project design and implementation strategy, especially in terms of modifying project targets to include gender disaggregated or family level indicators. The final evaluation will assess project impact, achievement of the project purpose, and the overall contribution to Mission objectives. It will specifically address lessons learned during implementation that relate to other ongoing activities. In addition to evaluations, the project also will conduct special impact studies of specific issues or implementation problems to provide rapid feedback and determine solutions. Further information on the Evaluation Plan and schedule is in ANNEX H.

VIII. ANALYTICAL CONSIDERATIONS

Social Soundness - The Social Soundness Analysis for the project indicated that the project will have a broad-based effect on producers who are member-owners of the FOBs participating in the project. Modifications in FOB operations as well as new business ventures will increase employment opportunities for farm families and farm earnings from profitable business operations. In addition, the value added to farm production through processing operations will increase overall

income for rural families. The proposed implementing strategy which uses AIFLD, FDF, and the Agribusiness Investment Unit is the result of social feasibility recommendations to ensure that FDF influence is moderated such that federations become an improved service channel for their associated cooperatives. The role of AIFLD is important in dealing with the political orientation and tradition of the agrarian reform cooperatives. Specific gender considerations will be taken into account in the feasibility studies of each new business opportunity.

Economic and Financial Feasibility - The Economic and Financial Analysis carried out for the project based its findings on an Impact Analysis done by Sparks Commodities in October 1991. The full text of the Economic Analysis is in ANNEX J and the Impact Analysis is an unattached annex in the official project files. The Sparks analysis measured the potential impact from project interventions on production, processing and marketing. The project Economic Analysis used Net Present Value (NPV) and Internal Rate of Return (IRR) indicators to measure economic efficiency. Using a 15% discount rate and a 10 year stream of benefits, the SFAD project is expected to have an IRR of 46% and a NPV of \$11.09 million. The foreign exchange benefit is estimated to be \$17.08 million during the five year project, and total employment gain is estimated to be 18,874 person years.

ACRONYMS

AHPROCAFE	Association of Honduran Coffee Producers (Asociación Hondureña de Productores de Café)
AID	Agency for International Development
AIFLD	American Institute of Free Labor Development
ANACH	National Association of Honduran Campesinos (Asociación Nacional de Campesinos de Honduras)
ANAPLAH	National Association of Plantain Producers of Honduras. (Asociación Nacional de Plataneros de Honduras)
APROCACAHO	Honduran Association of Cacao Producers (Asociación de Productores de Cacao de Honduras)
BANADESA	National Bank of Agricultural Development (Banco Nacional de Desarrollo Agrícola)
BID	Interamerican Development Bank (Banco Interamericano de Desarrollo)
CADERH	Advisory Council for Human Resources Development (Centro Asesor para el Desarrollo de los Recursos Humanos)
CAR	Regional Agricultural Cooperative (Cooperativa Agrícola Regional)
CARCOMAL	Cooperativa Agropecuaria Regional de Comayagua, Ltd.
CARNOL	Cooperativa Agrícola Regional Nor Occidental, Ltd.
CATIE	Tropical Agricultural Center for Experimental Research (Centro Agronómico Tropical de Investigación Experimental)
CDSS	Country Development Strategy Statement
COHORSIL	Cooperativa de Horticultores de Siguatepeque, Ltd.
CREHSUL	Cooperativa Regional de Horticultores del Sur, Ltd.
cwt	Hundred Weight
DICOMCAFE	Coffee Commercialization Division (División de Comercialización de Café)
DIMAQ	Input and Machinery Division (División de Insumos y Maquinaria)
FACACH	National Federation of Credit Unions

FDF	Finacial Development Fund (Fondo de Desarrollo Financiero)
FECORAH	Honduran Federation of Agrarian Reform Cooperatives (Federación de Cooperativas de la Reforma Agraria de Honduras)
FHIA	Honduran Agricultural Research Foundation (Fundación Hondureña de Investigación Agrícola)
FOB	Farmer Owned Business
FPX	(Federación de Productores y Exportadores Agropecuarios y Agroindustriales de Honduras)
FSN	Foreign Service National
FX	Foreign Exchange
GDP	Gross Domestic Product
GEMAH	Honduran Businessmen and Managers Association (Gerentes y Empresarios Asociados de Honduras)
GOH	Government of Honduras
IDF	Interamerican Development Foundation
INA	National Agricultural Institute (Instituto Nacional Agrario)
INCAE	Central American Institute for Business Administration (Instituto Centro Americano de Administración de Empresas)
INFOP	National Institute of Professional Formation (Instituto Nacional de Formación Profesional)
IQC	Indefinite Quantity Contract
IRR	Internal Rate of Return
NPV	Net Present Value
PID	Project Identification Document
PIO/T	Project Implementation Order for Technical Services
PL-480	Public Law 480
PROCOOPCA	Central American Cooperative Project (Proyecto de Cooperativas para Centro América)
PSC	Personal Service Contract
99	Hundred Weight

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SBU Strategic Business Unit

SFAD Small Farmer Agribusiness Development (Desarrollo de la Agroindustria de Pequeños Agricultores)

SFGS Small Farmer Organization Strengthening

TA Technical Assistance

UNC National Campesino Union (Unión Nacional de Campesinos)

UNIOCOOP Union of Agricultural Service Cooperatives (Unión de Cooperativas)

USAID United States Agency for International Development

WCCU World Council of Credit Unions

SMALL FARMER AGRIBUSINESS DEVELOPMENT (522-0383) LOGICAL FRAMEWORK

ANNEX A

SUMMARY

OBJECTIVELY VERIFIABLE INDICATORS

MEANS OF VERIFICATION

MAJOR ASSUMPTIONS

GOAL:

1. Increased private investment and trade.

1.a. AID reported export sales of \$130 million by 1996.

BCH reports

Continuing favorable economic environment.

1.b. Agricultural GDP growth of 4.5% by 1996.

DGEC Reports

Stable democratic government.

Update Agricultural Sector Assessment

Domestic and foreign markets for cash crops will continue to function and develop.

UPCA Reports

PURPOSE:

To increase production, value-added processing and ag exports of participating farmer owned businesses.

END OF PROJECT STATUS

- Average production gains of 30 - 40% for coffee, corn, melons and rice.

Project Records

GOV elimination of price/import subsidies.

- Employment in FOBs and on member farms increases by approximately 10,000 persons.

Project Records - MIS

Continue liberalization of financial policies, establishment of free markets, and supporting institutions.

- Foreign exchange earnings of FOBs increase by \$15 million.

Project Evaluations and Impact Update

Economic environment favorable for attracting agribusiness investment.

- Value-added processing gains of \$10.0 million by 1997.

Annual Reports of Participating Cooperative Federations.

OUTPUTS:

1. 30 - 40 FOBs providing increased services to members in sustainable manner.

1.a. Coffee discount of project participants vis a vis Central America reduced by 70%.

USDA Reports

Elimination of GOV role in agricultural input supply and marketing.

Baseline Studies

1.b. Input distribution costs reduced by 25%.

BCH Reports

Business management uncorrupted and increasingly effective in delivery of outputs.

1.c. Processing costs reduced by 25% on average for coffee, rice and melons.

World Market Information

Market demands for products and services at farmer-owned businesses continues at current levels.

Direction of Trade Publication

1.d. Marketing prices above national averages received by FOBs for coffee, rice and melons.

Annual Reports of participating cooperative institutions.

UPSA Reports

Adequate borrowed capital is available from Honduran sources to finance new business activities.

SMALL FARMER AGRIBUSINESS DEVELOPMENT (522-0383) LOGICAL FRAMEWORK

ANNEX A

SUMMARY

OBJECTIVELY VERIFIABLE INDICATORS

MEANS OF VERIFICATION

MAJOR ASSUMPTIONS

- | | | | |
|----|--|--|--|
| 1. | Increased financial viability of participating FOBs. | 1.e. Credit intermediation cost in agricultural service cooperatives reduced to 7%, including technical assistance. | Agricultural Production Surveys
Project Evaluation Reports
Project MIS
Impact Study |
| 2. | Increased financial viability of participating FOBs. | 2.a. 90% of FOBs operating at profit.
2.b. Participant FOB product sales (Coffee, rice melons) increase by 50% on average.
2.c. FOB member equity and reserves should increase to an average of 30% of assets. | |
| 3. | 30 - 40 new agribusiness investments undertaken by coops or federations. | 3.a. 30 - 40 investments operational.
3.b. 30 - 40 loans made.
3.c. 50 studies completed.
3.d. Investments have ROI greater than 15%, expressed in dollars. | |
| 4. | Participating federations operating at a profit through sales of goods and services. | 4. Profitability of federations (ROE) is a minimum of 35%. | |

Covenants:
GOW will remove the Model Cooperative Trust Fund from BANADESA and place it with a private bank as custodian with FDF as the trustee.

Extend the SFOS condition which permits the sale of debts of cooperatives to public institutions at a discount.

FDF or Ag Investment Unit analyzes costs/benefits prior to inclusion of reform sector FOBs affiliated to ANACH, FECORAH or UNC.

INPUTS:

Technical Assistance
Training
Commodities
Evaluations/Audits
Institutional Support
Financial Stabilization
TOTAL

AID	GOW
(\$000)	
4,933	0
625	454
517	0
425	0
0	2,962
0	3,144
6,500	6,560

MACS Reports
FARS Reports
Project Implementing Reports and Records
MIS
Evaluation Reports

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ACTION MEMORANDUM FOR THE ACTING MISSION DIRECTOR

FROM: Lars Klassen, DF
Dwight Steen, RD

SUBJECT: Small Farmer Organization Strengthening II (522-0383) PID

DATE: August 12, 1991

ACTION REQUESTED: That you approve the Project Identification Document for the Small Farmer Organization Strengthening II project (522-0383). The PID proposes a five year project with \$16.525 million total life of project funding (\$7.0 million FN, and \$9.525 million in local currency counterpart).

BACKGROUND: The Small Farmer Organization Strengthening II project (SFOS II) will be a follow-on project to the on-going Small Farmer Organization Strengthening project (522-0252). Both projects target rural residents and seek to improve their overall quality of life. This project addresses the access constraint which impedes efficient agricultural production. Rural residents currently have very limited access to agricultural and financial services and inputs such as processing and marketing services, fertilizer, seeds, technical assistance and credit. Cooperative businesses and credit unions are potentially viable channels for effective resource delivery to rural populations. However, at present, many of these institutions lack the financial, managerial and administrative capabilities to fill an intermediary role and are not able to take advantage of the increasingly favorable policy environment for agriculture.

The goal of the five year \$16.525 million SFOS II project will be to promote broad-based economic growth by increasing agricultural productivity, access to financial services, employment and foreign exchange generations. The purpose of the new project is to establish sustainable democratically controlled agricultural cooperative and credit union systems which efficiently deliver agricultural inputs, processing, marketing and financial services to farmers and rural residents.

The SFOS II project will develop effective, efficient private sector cooperative and credit union businesses that operate on a sustainable basis. It will help these businesses to better serve their membership and to expand services to a wider rural population. It will strengthen the administrative, managerial and financial accountability capabilities of these institutions which will enable them to operate more efficiently. In addition, the project will promote member capitalization programs. Once cooperatives and credit unions have

become administratively and managerially strengthened, the SFOS II project will work with the cooperatives through their second level organizations to identify new business opportunities through which they may help members increase their incomes. For agricultural cooperatives this may mean expansion into new crops or the addition of processing or input services. For credit unions new opportunities exist in the areas of improved cash management, savings and deposit mobilization and credit administration. In addition, credit unions may undertake coordinated efforts for liquidity management and financial stabilization as well as member deposit protection programs.

DISCUSSION: An Issues Meeting was held on Friday July 12, 1991 followed by a PID review chaired by the Deputy Mission Director on July 16, 1991. The following discussion notes the general decisions taken, modifications to the PID, and further guidance for Project Paper development.

General Decisions Taken:

1. The SFOS II project will pursue a strategy that combines strengthening activities with identification of growth or new business opportunities.
2. Development of rural land markets will not be a focus of the SFOS II project. It was determined that this activity can better be carried out under the currently existing local currency financed Land Sale Fund or through the amendment to the Policy Analysis and Implementation project (522-0325.2).
3. Development of a strategy to address the property rights of members of agrarian reform cooperatives will not be an objective of the SFOS II project. Mission efforts toward this end will be carried out through the Policy Analysis and Implementation project (522-0325.2)
4. Proposed project objectives will be reviewed and their number reduced, if possible, in order to simplify PID presentation and ensure that only essential objectives remain in the project.
5. While the Mission feels that formalizing the legal status of the FDF is an important objective, legal chartering of the FDF will not be a Condition Precedent to Disbursement for the SFOS II project.
6. The Economic Analysis for the project will be used to determine the overall impact of the project. To be a viable venture it is anticipated that the project will meet an established rate of return, but it will not demonstrate that the funds to be invested in this project will have a higher rate of return than any alternative use.
7. A final evaluation of the SFOS I project will be carried out as part of project design

for SFOS II.

Modifications to the PID (Sections are noted):

1. The SFOS II project will not promote the development of new institutions. The PID indicates that new activities will be carried out by existing institutions. (Section IV. B.)
2. It was determined that a Handbook 3 Bilateral Grant Agreement will be used and that AID will carry out direct contracting for technical assistance through an institutional contractor. In order to reduce the management and administrative burden on the Mission, the contractor shall be responsible for procuring all project financed commodities other than those to be used by project funded PSCs. In addition, direct local currency grants may be used with AIFLD for work with the reform sector. (Section V. D. and E.)
3. The PID notes that the project will deal exclusively with service cooperatives not production cooperatives. (Section V. A.)
4. The Project Financial Plan has been modified to:
 - correct the amount for project financed training;
 - clarify that commodities will be financed by AID not the GOH; and
 - increase the amount for audits to \$200,000 in the PID and review this figure during PP development based on cost estimates to be made by the Controller's Office.(Section V. F.)
5. The PID indicates that two Non-Federal Audits will be carried out during the life of the project. (Section V. F.)
6. "Auxiliary credit" which is a new business opportunity for cooperatives will not be project financed. (Section IV. B.)
7. The PID identifies the target beneficiary population for the project as "rural residents", not just rural farmers. (Section V. A.)
8. The PID includes a rationale section which discusses the overall need for the project and the rationale for a new project rather than an amendment to the existing project. (Section III. C.)

Guidance for Project Paper Development:

1. The design team will review project objectives to ensure that the project remains as simple and straightforward as possible in real terms.
- 

During intensive review the project design and strategy were modified in the following manner: The new project (SFAD) will work only with agricultural service cooperatives. The on-going SFOS project will be amended to complete credit union activities, continue activities with IHDECOOP, and deal with the issue of the legal structure of the FDF.

2. Potential impact from the addition of the proposed growth component will be measured as part of the Economic Analysis during PP development.

A separate Impact Analysis was carried out which measured the impact of the ongoing SFOS project, anticipated benefits from the proposed project. This report provides information related to the estimated impact from production, marketing and processing. This information was used in the Economic Analysis of the Project Paper. The Impact Analysis is an unattached annex to this Project Paper.

3. The Project Paper will state AID's intentions that FDF be established as a separate legal entity, and will define a strategy toward this end.

The SFAD project does not address the FDF institutionalization issue. A future amendment to the SFOS project will discuss the role and future of the FDF.

4. Project development tasks will include looking at the rationale for working with the cooperative sector. This analysis will review how successful efforts have been with cooperatives in Honduras and assess the sustainability of proposed actions.

The Technical Analysis and the case studies undertaken during project design constituted a broad cooperative analysis. The revised focus of the SFAD project which views cooperatives as one type of farmer-owned business rather than as specific development organizations will ensure that project sponsored activities are sustainable.

5. During Project Paper development a strategy will be developed for dealing with the UNIOCOOP trust fund in BANADESA.

Preliminary discussions with the Ministry of Finance indicate that there will be general agreement to move this trust fund from BANADESA and place it in the same trust arrangement envisioned for the operation of the FDF.

6. At present the PID indicates that the SFOS II project will have a five year LOP. During intensive review, the project designers will review this time frame and determine its adequacy.

During PP development the planned period of implementation was determined to be adequate.

7. Recommendations for the project Information System which clarify objectives and

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gender considerations and address the Family Initiative will be incorporated during project design.

The Information and Monitoring System described in Section X. of the Project Paper has been designed to monitor gender and farm family impact of project activities. At present objectives are not gender disaggregated, but may be modified during the course of project implementation as information becomes available.

8. The Project Paper development team will include a financial analyst who will review the capabilities of the implementing institutions.

A separate analysis of financial controls of FDF and AIFLD has been carried out. Findings from this analysis are reported in Section VIII. of the Project Paper.

9. The Project Paper will more fully describe "short term cash management" and "specialized commercial services for credit unions" as well as clarifying the concepts of "institutional support" and "financial stabilization."

The concepts referenced above will be addressed in the amendment of the SFOS project.

10. During Project Paper development the magnitude of proposed outputs will be reviewed to determine their adequacy.

The Project Committee has reviewed the proposed outputs and finds them satisfactory.

11. During project development, the design team will review proposed methods of implementation to ensure that the process is as streamlined as possible.

As discussed above, the revised design of the project focuses project activities to productive agricultural sector interventions.

12. The Project Paper will state that separate financial reports must be issued by FDF and FACACH.

The Project Agreement will include a covenant regarding separate financial reports for FDF.

AUTHORITY: The New Project Description for the Small Farmer Organization Strengthening II project was reviewed and approved in AID/W as part of the 1992-1993 Action Plan. STATE 261938 (ANNEX II) delegates authority to the Mission to approve the PID for the Small Farmer Organization Strengthening II project.

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ANNEX B
PID GUIDANCE MEMORANDUM

RECOMMENDATION: That you approve the PID for the Small Farmer Organization Strengthening II project (522-0383) based on the preceding discussion and cognizant of the guidance contained in this memorandum for the development of the Project Paper.

Approved

Disapproved

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Clearance page for ACTION MEMORANDUM FOR SFOS II PID and SFOS II PID
drafted MStephens, DF

LKlassen, DF Draft _____	Date 7/23/91 _____
DSteen, RD draft _____	Date 7/24/91 _____
LArbuckle, RD draft _____	Date 7/24/91 _____
JACarranza, RD draft _____	Date 7/24/91 _____
DSoules, DP draft _____	Date 7/26/91 _____
CAnderson, RD draft _____	Date 7/24/91 _____
FCaropreso, CONT draft _____	Date 7/26/91 _____
PDavis, EPA draft _____	Date 7/29/91 _____
CTabora, CONT draft _____	Date 7/25/91 _____
CZambrana, DP draft _____	Date 7/26/91 _____
MHorween, CONT phone _____	Date 7/29/91 _____
RFigueredo, HRD draft _____	Date 7/26/91 _____

**SECRETARIA DE HACIENDA Y CREDITO PUBLICO****REPUBLICA DE HONDURAS**

TEGUCIGALPA, M.D.C., 4 DE FEBRERO DE 1992

CP-0149

Señor
MARSHALL BROWN
Director Agencia para el
Desarrollo Internacional
Presente

Señor Director:

El Gobierno de Honduras dada la importancia que para el país tiene el sector cooperativo ha estado ejecutando, en colaboración con la A.I.D., el Proyecto 522-0252, Fortalecimiento de las Organizaciones de Pequeños Agricultores. Evaluaciones hechas recientemente al proyecto nos demuestran que se están obteniendo resultados muy halagadores en la búsqueda de soluciones a los problemas del sector cooperativo y concluyen en que es necesario continuar apoyando al sector.

Basado en lo expuesto anteriormente por medio de la presente le solicitamos a la Agencia para el Desarrollo Internacional que se estudie la posibilidad de financiar lo siguiente:

1. La extensión del Proyecto Fortalecimiento del Pequeño Agricultor por un período de tres años enfocado a atender al sector cooperativo de ahorro y crédito con el propósito de profundizar su participación en los mercados financieros. En esa misma extensión se debe incluir el fortalecimiento del Instituto Hondureño de Cooperativas (IHDECOOP) con la finalidad de mejorar su eficiencia operativa mediante la definición de estrategias para el logro de su autosuficiencia.
2. El diseño y ejecución de un nuevo Proyecto con una vigencia de cinco años y que tenga como propósito el de dar acceso a servicios y tecnología a pequeños agricultores para el fortalecimiento de sus empresas, que contribuya a la solución de los problemas financieros de dichas empresas como la falta de capital de trabajo y de patrimonio, así como que también defina

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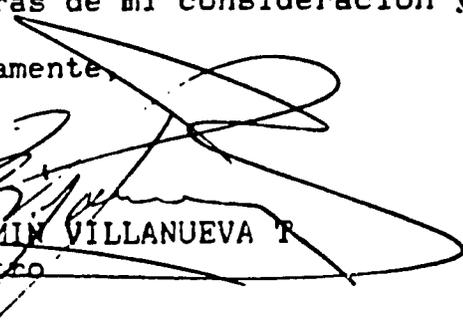
y ponga en marcha estrategias para procurar el crecimiento de las empresas basado en el aumento de la producción y eficiencia productiva que contribuya a generar empleo, la captación de divisas y a generar valor a los productos a través de su procesamiento.

Entendemos que será necesaria la aportación de una contraparte aproximada de L. 35,420,000.00 para financiar la extensión y el nuevo proyecto, la que estamos dispuestos a financiar usando recursos provenientes de los Convenios de Recuperación Económica y PL-480 asignados al sector privado en base a que los beneficiarios identificados para los Proyectos son considerados dentro de dicho sector.

En espera de una resolución favorable a la solicitud planteada, aprovecho la oportunidad para patentizarle las muestras de mi consideración y estima.

Atentamente,




BENJAMIN VILLANUEVA T
Ministro

CC/ream

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I. SUMMARY AND RECOMMENDATIONS**A. Summary**

The purpose of the Small Farmer Agribusiness Development (SFAD) project is to increase production, value-added processing and agricultural exports of farmer-owned businesses. Achievement of this purpose contributes to overall USAID/Honduras and Agency goals of increasing private sector investment and trade. The project will have a five year and eight month period of implementation and a Life of Project funding of \$13.060 million - \$6.5 million in Food and Nutrition funding, and the equivalent of \$6.560 in host country owned local currency counterpart.

The agricultural sector is of paramount importance to Honduras. It employs over 50% of the economically active population and contributed 84% of export earnings from 1984-1988. However, in the 1980s, annual growth for the sector averaged only 1.8%, contributing to declines in real per capita income during the decade. For Honduras to achieve its overall growth targets of 4.0% by 1994, and 5.0% by 1997, the agricultural sector must be reactivated. Specific targets for the agricultural sector are a growth rate of 4.0% by 1994 and 4.5% by 1997.

Progress toward these targets will be a principal aim of the SFAD project. At present, agricultural growth is impeded by policy and structural constraints. The productive sector requires market pricing of agricultural goods and services, more effective natural resource management, and improved producer access to markets and technology to increase output and agricultural income. Mission efforts through the Structural Adjustment Program (SAP) and the Policy Analysis and Implementation project (PAI) will address these issues at the policy level, while the SFAD project will work at the producer level to take advantage of new business and growth opportunities afforded by improved access to services and technology.

The SFAD project will work within the structure of the Honduran agricultural sector which is comprised of primarily small-scale farm operations. In order to work more effectively with these producers, the project will work with groups of farmers who are member-owners of farmer-owned businesses (FOBs) such as cooperatives and producer associations. This private sector group approach will ensure that project activities are market-based and requires a participative mode of implementation.

Major outputs at the end of the project will be: agricultural production increases for specific crops averaging 30% - 40%, approximately 10,000 new jobs, increased annual foreign exchange earnings of \$15.0 million, and net annual value-added processing of \$10.0 million. In addition, 30 - 40 farmer-owned businesses will be providing services to their members in a viable manner with improved financial and operating efficiency. These FOBs will be analyzing and undertaking new business ventures which will contribute to the production, employment and foreign exchange targets noted above.

To achieve these outputs, the project will use a two phased strategy of Strengthening and Growth. Participating FOBs often have the potential to

increase production and expand operations, but at present are financially and managerially weak. Through a Strengthening component, the SFAD project will rehabilitate FOBs and help them develop the operating base required for growth. Project Strengthening activities will focus on management and financial restructuring and will use operational support grants, training, and market rate financial stabilization loans to fortify the FOBs. This component of the project will be implemented by the Financial Development Fund (FDF), a development finance institution established in 1987. The American Institute for Free Labor Development (AIFLD) will carry out complementary Strengthening activities with reform sector cooperatives. The AIFLD element will be executed through a local currency grant.

Once FOBs have been strengthened, they will be ready to take advantage of opportunities for growth. The SFAD project will have a separate Growth component which will help the producer businesses to identify, plan and move into new business activities. It is anticipated that the greatest opportunities will lie in input supply services, coffee processing and other agro processing. Agro processing is an open field in Honduras and will result in significant employment and income from value added. The project will create a temporary Agribusiness Investment Unit to coordinate this component. This unit will provide technical assistance, training and related services to FOBs ready to move into new business areas. The FDF and the Agribusiness Investment Unit will coordinate efforts to ensure that activities with individual FOBs are complementary and support overall project objectives.

The Project Agreement will be signed with the Ministry of Finance and Public Credit (MFPC) and the Ministry of Economy (MOE). These public agencies will provide oversight and guidance through their participation on the Board of the FDF. In addition, the Government of Honduras (GOH) will provide the required local currency counterpart support.

USAID project funding will be used to procure technical assistance services and training and observational tours related to new business opportunities. In addition, the project will provide limited commodity support, primarily vehicles and computers for implementing units and FOBs. Appropriated funds will also finance costs of project management and support as well as periodic audits and evaluations. Local currency counterpart will financial management restructuring grants and financial restructuring loans to participating FOBs. AID will use direct procurement for all Food and Nutrition funded costs.

B. Project Design Issues

In August 1991, the Acting Mission Director approved a Project Identification Document (PID) for the Small Farmer Organization Strengthening II project. This project was to be a phase two project of an on-going effort that works with agricultural service cooperatives and credit unions. The focus of that project is to develop a system of delivering inputs to farmers and rural residents.

Following approval of the PID for the follow-on project, the Project Design team and Mission Management analyzed the overall impact which the project would have on achievement of Mission objectives. It was determined that the emphasis of the

new project should be on outputs of production, employment and foreign exchange rather than on development of institutions. The SFAD project was then designed with an orientation toward the tangible yields of farmer-owned businesses rather than institutionalization. The SFAD strategy still advocates working with agricultural service cooperatives, but will use these organizations as channels for achieving the project objectives. Participation in the SFAD project will be based on ability to contribute to the project purpose, and it is anticipated that only the top tier of cooperative organizations will be eligible for SFAD assistance.

The PID Guidance memorandum and indications of how the SFAD Project Paper responds to this guidance are incorporated in ANNEX B.

C. Recommendation

The Small Farmer Agribusiness Development project directly contributes to USAID Honduras' goals and objectives. The project is consonant with Agency and Bureau policies and strategies. Anticipated outputs related to production, foreign exchange and employment will result in higher rural income and nutritional levels. Both the Government of Honduras and the private agricultural sector support the objectives and planned implementation procedures for this project. Direct relationships with farmer-owned businesses will facilitate the required institutional changes while allowing project management and technical assistance providers to focus on sound new business investments.

The project design team and project committee which prepared and reviewed the Project Paper have concluded that the project has the sound financial, economic, institutional, technical and social bases to be successful. This conclusion is based on the various project analyses, case studies, and impact analysis carried out by both outside consultants and USAID/Honduras staff who participated in the design.

The design team also determined that the Project will not have an adverse effect on the environment, and therefore, a categorical exclusion has been recommended and approved by the LAC Bureau Environmental Officer based on the provisions of Section 262.2(C) of 22 CFR Part 216 on environmental procedures.

D. Project Design and Review

The USAID/Honduras Project Design Team was composed of:

Delbert McCluskey	Office of Agriculture and Rural Development
Lee Arbuckle	Office of Agriculture and Rural Development
Jose Antonio Carranza	Office of Agriculture and Rural Development
Melissa Stephens	Office of Development Finance
Carmen Zambrana	Office of Development Programs
Donald Soules	Officer of Development Programs
Paul Davis	Office of Economic Programs and Analysis
Frank Caropreso	Office of the Controller
Marco Zavala	Office of the Controller
Michael Snyder	Contracting Officer

Thomas Johnson
Michael Williams

Regional Housing and Urban Development Office
Regional Legal Advisor

II. BACKGROUND

A. Country Setting

Honduras is primarily an agricultural country. In the 1960s it instituted import substitution policies to stimulate industrial development. These policies fueled buoyant economic growth throughout the 1960s and 1970s, but led to an economic slump and stagnant economic performance in the early 1980s. The economy recovered slightly in 1987 and 1988, only to steadily decline again in 1989, 1990 and 1991. The last three years' negative growth has been compounded by double digit inflation - a phenomenon rarely experienced before in Honduras, and is reflected in the 1990 per capita GNP of approximately \$480.

The underlying structure of the Honduran economy has long been based on traditional commodity exports of bananas and coffee. Limited industrial and trade growth has occurred, but for the most part this growth has relied on protective barriers. By 1980, the signs of economic deterioration were evident in the growing balance of payments deficits and increased government consumption of GDP. Poor macroeconomic and sectoral policies constrained agriculture growth to 1.8 percent annually in the 1980s, and a weak financial system did not mobilize domestic savings nor rationally allocate resources to investment activities.

Despite its weak performance in the 1980s, the agricultural sector is the backbone of the Honduran economy. In recent years, non-traditional exports such as shrimp and melons have become important contributors to Honduras' foreign exchange earnings, but these and other export crops, especially coffee, continue to produce well below their potential. Added to this is the lack of secure land tenure faced by most producers. Honduras is a land of small-scale farmers who usually do not have title to the land they work. The uncertain land ownership discourages investments or the development of crops with a medium to long-term payback.

B. Description of the Problem

As noted above, Honduras is an agrarian country with its agricultural sector composed primarily of small-scale farm holdings. With the exception of the large multinational banana companies, average farm size is less than 10 manzanas/producer. The agricultural sector employs over 50% of the economically active population, provided 84% of exports from 1982-1988, and produces 50% of total GDP, including agricultural processing and trade activities.

The agricultural sector is an essential part of the Honduran economy, but at the present time it produces far below its potential. USAID/Honduras' Agricultural Sector Strategy discusses the constraints faced by sector participants. These fall into three main areas of pricing policies, natural resource use and management, and inadequate access for producers.

The access problem can be further broken down into five areas which directly affect farmers - markets, technologies, information, inputs and financial services.

- **Markets:** Producers face high costs to access domestic and international markets because of inadequate transport and storage facilities, archaic market structures, and inefficient government organizations and services. Their entry into international markets is further limited by a lack of knowledge of market segments and inadequate linkages with key participants.
- **Technologies:** The limited access to improved technologies for both production and processing keeps farmers from expanding their output, developing new products and capitalizing on higher margins from value-added operations.
- **Information:** Lack of information on commodity quality requirements and price movements in international markets for export crops hurts producers who cannot capture the full economic benefit of their production.
- **Inputs:** Farmers have inadequate or inconsistent access to key production inputs such as fertilizer, seed, farm chemicals, etc. Supplies of these goods are often scarce or prohibitively expensive. Increased yields are directly linked to appropriate use of inputs.
- **Financial Services:** At present, less than 10% of small scale producers have access to formal credit markets. This reduces investments which lead to greater and more diversified output.

The Small Farmer Agribusiness Development (SFAD) project will address the access constraint faced by Honduran agricultural producers in conjunction with other Mission efforts. This project will be the Mission's foremost activity in overcoming limited access with an end result being increased production and foreign exchange earnings by the Honduran agricultural sector.

III. PROGRAM FACTORS

A. Relationship to Agency Policy and Objectives

In December 1990, AID announced its new strategic initiatives which form the framework for programs and projects. These initiatives focus on democracy, the environment, a partnership to develop U.S. business, university links with developing countries, and the role of the family. The SFAD project will support the Family and Development Initiative as it seeks to develop new opportunities to increase overall family resources and promote economic and social development. While the SFAD project will work with farmer owned businesses (FOBs), it is essential to note that individual families are the units that comprise these economic entities. Project success ultimately depends on the decisions taken by individual producer families to participate in the expanded activities of the

FOB. By increasing access to information, markets and financing for farmer families, the SFAD project will support increased economic productivity.

The Agency's economic development strategy and specifically the economic development strategy for Central America recognize the importance of agricultural development to overall economic growth. The Agency's overall food and agricultural objectives are to enable countries to become self-reliant in food, assure food security to their populations and contribute to broadly-based economic growth (Food and Agricultural Development Policy Paper, May 1982). The strategy for Central America (Economic Assistance Strategy for Central America 1991 -2000) focuses on the need for both policy reforms and specific activities to overcome constraints such as poor market information and linkages as well as insufficient technology development and transfer in order to achieve vigorous private sector led growth. Recognizing that small-scale farmers comprise the great majority of rural economic units, AID's objectives emphasize effectively increasing the productivity, incomes, and market participation of these producers.

The SFAD project directly supports these strategies and objectives by encouraging private sector driven technology generation, adaptation and transfer, and private sector provision of inputs. By working with farmer-owned businesses, it will seek sustainable, market oriented solutions that overcome access problems faced by the small-scale producer. The SFAD project activities will leverage Mission policy efforts in trade, pricing, and financial markets liberalization.

B. Relationship to Mission Strategies

1. Relationship to the Country Development Strategy Statement (CDSS)

USAID/Honduras' program over the next five years will focus on economic and social growth through the following six objectives.

- Improve sector policies in agriculture, trade, investment and finance;
- Facilitate private investment and trade;
- Facilitate implementation of social sector policies that improve the well being of the historically disadvantaged;
- Improve environmental policies and natural resource conservation;
- Strengthen democratic institutions and promote a more pluralistic Honduran society; and
- Promote effective Honduran regional and international cooperation.

The SFAD project directly supports the second objective of facilitating private investment and trade. This is linked to USAID's strategy for the agricultural sector which proposes to increase the sector's growth rate to 3.5% in 1993 and to 4.5% in 1996. To achieve this growth, the Mission's program interweaves policy dialogue with specific project interventions that address the three main

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constraints of prices and incentives, natural resource use, and access to markets and technology. In the agricultural sector, USAID expects its projects to show acceptable economic rates of return, contribute to higher rural nutrition levels, and either contribute to higher real agricultural prices, higher agricultural production or higher foreign exchange earnings.

The SFAD project will contribute to increases in agricultural production and foreign exchange earnings as well as impact employment. These gains will contribute to higher rural nutrition levels. The project also will leverage policy changes in: improving marketing infrastructure for domestic and export commodities; improving technology generation and transfer in basic grains and export crops, improving information flows and increased access to input channels.

C. Conformity with GOH Strategy

The Government of Honduras (GOH) is fully aware of the need to maintain and improve agricultural performance. Its Integrated Development Strategy (1990-1994) sets ambitious targets for:

- increasing traditional exports by using new, more efficient technologies, and improved market management at the national and international levels;
- diversifying and increasing non-traditional exports by removing constraints through support to agricultural research, and through the mobilization of resources and financial instruments which are required for production; and
- restructuring and strengthening the agricultural financial sector.

The Ministry of Natural Resources has developed a plan to reactivate the agricultural sector and achieve these targets. Its plan addresses the primary constraints of poorly defined incentives, poor management of natural resources, and limited access to market inputs and technologies. It also sets specific objectives for increasing employment, income and purchasing power of the rural poor; increasing foreign exchange generations through agricultural exports and economically feasible import substitution; and establishing a base for sustainable development through management of natural resources and the environment.

The SFAD project will help the Government achieve its objectives with activities that result in the generation of employment and additional income for farm families, and increased foreign exchange earnings.

D. Relationship to other Donor Activities

Macroeconomic policy adjustments supported by the International Financial Institutions and the Mission to reduce import tariffs and liberalize the foreign exchange regime have led to a much more favorable environment for agricultural production and exports and financial development. The objective of the SFAD project of improving access to markets, services, and technology for small farmers will complement the macroeconomic policies with specific microeconomic

actions to increase production, foreign exchange, and employment.

The Interamerican Development Bank (IDB) is reviewing a project to further extend the impact of an earlier AID project which focussed on the increased productivity of small-scale coffee producers. This will not only result in more product to be marketed, but also increase the need for efficient access to services and markets by those producers.

In addition, the European Economic Community (EEC) finances a large cooperative development project for the Central American countries, PROCOOPCA, with headquarters in San Salvador. In Honduras, this project has used a training manual in accounting developed by the SFOS project in its assistance to improve the accounting and administrative procedures of the Talanga coffee cooperative.

Other related donor efforts include the Interamerican Development Foundation's (IDF) leadership development program with local leaders of the coffee growers federation, AHROCAFE. This program will complement the SFAD project's managerial and financial restructuring process. Other links exist with the Canadian International Development Agency which has a project in Guayape to finance basic grains production. The ALGOSUR cooperative, one of the UNIOCOOP affiliates in the process of administrative and financial restructuring, markets part of that production.

E. Relationship to other USAID Activities

1. Relationship to Agricultural Sector Activities

The SFAD project complements the Mission's policy dialogue objectives of the Structural Adjustment Program (522-0365) and the Policy Analysis and Implementation Project (522-0325). These two programs focus on further price and trade liberalization, land tenure improvements, and financial markets reform. Progress in these key policy areas is essential for the sustainable success of SFAD project activities.

The SFAD project will encourage farmer-owned businesses to establish links with other USAID development efforts such as the Federation of Agricultural and Agroindustrial Producers and Exporters (FPX) (522-0207) and the Honduran Agricultural Research Foundation (FHIA) (522-0249). These organizations can provide FOBs with technical assistance, information and support services in the production, post-harvest management and marketing of agricultural commodities and processed products. Finally, the farmer-owned businesses also have received assistance in irrigation design and management sponsored by the USAID financed Irrigation Development Project (522-0268).

2. Relationship to Small Farmer Organization Strengthening project

The Small Farmer Organization Strengthening project (522-0252) began in 1985 to address the administrative and financial weaknesses of cooperative businesses and credit unions and to improve their ability to serve their members better. The project directs its efforts to five second level organizations or federations and to their affiliated individual cooperatives or credit unions. These first level

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organizations then extend the range of beneficiaries to their members. Four of these organizations are the National Federation of Credit Unions (FACACH), the Union of Agricultural Service Cooperatives (UNIOCOOP), the Federation of Agrarian Reform Cooperatives (FECORAH), and the Association of Honduran Coffee Producers (AHPROCAFE). The fifth second level organization, the National Association of Peasants of Honduras (ANACH) receives assistance through a separate complementary local currency grant.

The SFOS project is implemented by the Financial Development Fund (FDF), a development finance institution created by the project. Working through the FDF, the SFOS project employs a three pronged strategy applying institutional support, financial stabilization and credit to achieve the restructuring and strengthening of participant cooperative organizations.

The American Institute for Free Labor Development (AIFLD) implements the complementary local currency grant with ANACH. This method of implementation was chosen due to the severity of the managerial, financial and administrative weaknesses of the ANACH system. AIFLD's program focuses on nine ANACH cooperatives. It has been in place for three years and is demonstrating substantial progress.

The SFAD Project design began as an extension of SFOS project activities. At the PID stage, the SFAD project's strategy concentrated on the institutional development needs of both the agricultural service cooperatives and credit unions as the means to achieve long range sustainable growth. However, during project paper development the Mission modified this strategy design to focus on increasing agricultural production and exports, and foreign exchange and employment generation. The project now emphasizes the potential contribution to the project's goals as the basis for project participation. This revised strategy, therefore, excludes credit unions, and some farmer-owned cooperative organizations which are not expected to contribute significantly to these goals. In order to achieve the project's goals, many farmer-owned business organizations will need first to be strengthened administratively and financially. Therefore, the project will continue some of the SFOS project's institutional strengthening efforts with those agricultural service cooperatives capable of contributing significantly to the project's goals. Annex J has additional information on the results of the evaluation that was carried out in October 1991.

IV. PROJECT RATIONALE AND STRATEGY

A. Rationale

Agriculture is the largest single sector in the country's economy. Reactivation of agricultural production is a high priority for the GOH and for the donor community.

The limited access of small and medium sized agricultural producers to markets, technologies, information, inputs and financial services impedes the achievement of increased production and efficiency from the agricultural sector. Improved

access will allow farmers to increase their sustainable production capacity and lead to higher levels of private sector investment and trade by agricultural producers. Greater access for the small scale producer also will ensure that the benefits of economic growth are broadly distributed throughout Honduran society and promote a more democratic pluralistic society.

B. Strategy

The overall goal of the project is to increase private sector investment and trade. As noted above, limited access is one of the principal impediments to increased investment and trade in the agricultural sector. Therefore, achieving the project's goal will require overcoming the constraints producers face in gaining access to the resources, inputs, markets, and technologies required to increase output of traditional and new agricultural products. The project will develop market oriented strategies for overcoming these constraints.

In the 1960s and 1970s, AID and other donors financed several large public sector projects to strengthen public institutions' abilities to resolve these production constraints. These programs generally failed to achieve their intended objectives due to such public sector limitations as a chronic shortage of financial support and constantly changing government priorities. Based on this experience, the Mission is seeking private sector solutions to resolve the access constraints faced by the majority of Honduran agricultural producers.

The principal farmer-owned businesses expected to participate in the project are affiliated to the UNIOCOOP, DICOMCAFE, and to a limited extent, ANACH organizations. These groups have the greatest potential to increase production, foreign exchange and employment opportunities for Honduran producers during the life of the project. While these affiliated FOBs are the most likely to succeed as viable business entities in a liberalized market environment, many are still hampered by inefficient management and financial control systems, debt load, and inadequate capitalization. These constraints must be resolved before the producers can move into new economic ventures that will promote growth.

In order to facilitate this process the project will use a dual approach strategy of Strengthening and Growth. Strengthening activities will be similar to those carried out under the SFOS project and will seek to restructure participating organizations with weak management and financial positions. The Growth activities will help those strengthened farmer owned businesses (FOBs) to seek out and develop new business opportunities. Both components will work with FOBs at the local and federation levels. These two elements, Strengthening and Growth, are essential and are intertwined in their focus on the project's overall objectives of increasing agricultural production, foreign exchange earnings and opportunities for employment.

C. Selection of Participating Businesses

As noted above, private sector entities offer opportunities for market based and market tested solutions. The business orientation of the private sector is an essential element to achieving sustainable results in the agricultural sector. The structure of the Honduran agricultural sector requires that project

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interventions be carried out directly at the level of farmer owned businesses (FOBs) and only through the FOBs to the individual farmer. It would not be feasible or efficient to undertake project activities with each small-scale farmer.

Given that the project must seek a group structure for reaching agricultural producers, the three basic types of organizations that exist in the Honduran private sector which work with agricultural producers were analyzed for possible project participation. These groups include profit maximizing individual or group owned corporations, cost minimizing farmer owned cooperative businesses, and producer associations. To determine which groups should participate in the SFAD project, four factors were considered which are detailed in the matrix below.

Selection Criteria for Participation			
	Profit Maximizing S.A.	Cost Minimizing Coops	Producer Associations
1. Entity has high potential contribution to production, value-added processing, FX and employment.	Yes	Yes	Yes
2. Entity promotes the efficient resolution of access problems.	Generally Not	Yes	Yes
3. Entity has potential for developing sufficient capital base.	Yes	Yes	No
4. Entity lacks access to information, inputs, processing and marketing services.	Some do, Most don't	Frequently Yes	Frequently Yes

Applying this analysis, the project will focus on farmer-owned cooperative businesses. The reasons are that: (1) profit maximizing private institutions, because of widespread market imperfections and skewed factor endowments, do not generally promote the efficient resolution of access problems; (2) profit maximizing organizations generally do not need AID assistance to overcome their own access problems; and (3) producer organizations generally do not possess the legal means to develop a capital base, a necessary requirement if the organization is to be capable of making investments in its existing and new operations. One producer organization, AHPROCAFE, overcame this problem by chartering its economic division, DICOMCAFE, as a separate business from its representational activities. Should another producer association follow this lead, for example the plantain producers association (ANAPLAH) or the cacao producers association (APROCACAHO), it also might qualify for project participation. However, at this time, the agricultural service cooperatives are the most appropriate organizations to work with under the project.

In Honduras, the Cooperative Law of 1987 requires all cooperative organizations to be affiliated to a second level federation. These relationships between cooperative and federation vary dramatically in terms of services provided, loyalty, and level of involvement and by cooperatives within the various federations. For purposes of simplification, the farmer owned businesses which will participate in the SFAD project are classified in terms of their affiliation with a federation. The agricultural service cooperatives are organized around five different types of federations. Three affiliate agrarian reform cooperatives and two have members which are independent cooperatives. Applying the same selection criteria to the five types of cooperative organizations yields the following results.

Selection Criteria for Participation					
	UNIOCOOP	AHPROCAFE	FECORAH	ANACH	UNC
1. Entity has high potential contribution to production, value-added, FX and employment.	Yes	Yes	Depends on Coop	Depends on Coop	No
2. Entity promotes the efficient resolution of access problems.	Yes	Yes	Sometimes	Generally Yes	No
3. Entity has potential for developing sufficient capital base.	Yes	Yes	Generally Not	Yes	Perhaps
4. Entity lacks access to information, inputs, processing and marketing services.	Yes	Yes	Yes	Yes	Yes

At this time, three federations and their members are expected to participate in project-sponsored activities. The federations are the Union of Agricultural Service Cooperatives (UNIOCOOP), the Honduran Association of Coffee Producers (AHPROCAFE) and the National Association of Campesinos of Honduras (ANACH). Each organization affiliates a different type of producer, and has a different historical perspective on the opportunities for growth in Honduras. UNIOCOOP and AHPROCAFE meet all criteria for participation. Experience under the SFOS project with the AIFLD/ANACH grant has demonstrated that at least four of the ANACH regional cooperatives have a strong potential for contributing to the project's goals. A brief description of the primary participants is presented below. Additional information on these groups is available in unattached annexes to the project paper.

UNIOCOOP: The Union of Agricultural Service Cooperatives (UNIOCOOP) began operations in July, 1985. UNIOCOOP was formed to provide technical and financial services to four model cooperatives which had been established and supported by the USAID funded Agricultural Sector II Program. Since 1985 eight additional cooperatives have affiliated to UNIOCOOP and another seven are currently seeking admission into the federation.

UNIOCOOP's members represent a broad geographic and production spectrum of Honduran agriculture. Most of UNIOCOOP's affiliated cooperatives are involved in more than one business or commodity. The principal products include coffee, vegetables, melons, basic grains, and input supplies. The prospective members include four coffee cooperatives, one dairy cooperative, one swine producer cooperative and one cooperative which exports ornamental plants. The active membership of UNIOCOOP's current cooperatives totals 2,977 individual producers. The additional seven prospective member cooperatives represent another 892 farm families.

UNIOCOOP provides input supply, coffee marketing and business development services to its members. In addition, it provides training for members in coffee

quality improvement and the agronomics and business management of fertilizer sales and distribution. UNIOCOOP has a distinctive capacity in input supply and has become a major source of fertilizer and farm chemicals for the Honduran agricultural sector.

AHPROCAFE: The Honduran Association of Coffee Producers (AHPROCAFE) began in 1967. Its major objectives were to defend the interests of coffee producers, analyze problems in the production of coffee, develop practical solutions for them, and encourage the development of coffee producer cooperatives. Today, it claims a membership of 50,000 associated producers, of which over 90% are small-scale producers with coffee holdings ranging from 2-15 manzanas. AHPROCAFE's membership also includes seventeen cooperatives with approximately 5,000 members.

AHPROCAFE has two broad organizational functions. Its first deals with membership activities, social services, the administration and interaction with the representative boards, public relations, and liaison with governmental and international agencies. Its second deals with business activities.

In 1989, AHPROCAFE created two departments to carry out its business activities. The División de Insumos y Maquinaria, (DIMAQ), distributes farm supplies, fertilizer, and equipment through a main warehouse in San Pedro Sula and eleven retail outlets throughout Honduras. The División de Comercialización de Cafe, (DICOMCAFE), offers drying, milling, storage, sorting and export services to affiliated coffee producers with the purpose of insuring that the grower received maximum sales income as well as guaranteed weights and measures. Since 1989, DICOMCAFE has grown to become the sixth largest of the country's 45 active coffee exporters. Its principal facility is based in San Pedro Sula and it has additional drying facilities in Comayagua and Danlí. In late 1991, AHPROCAFE reorganized DIMAQ and DICOMCAFE into an independent subsidiary, DICOMCAFE S.A.

ANACH: The National Association of Campeſinos of Honduras (ANACH) began in 1962 as an organization to supervise landless campesinos in compliance with the Agrarian Reform Law. In part, ANACH was created as a counter-measure to militant labor unions and radical campesino organizations which were organized in the late 1950s and early 1960s. Having outlasted the earlier more radical organizations, ANACH is now the largest and the oldest campesino organization in Honduras. In the beginning, ANACH had a political mission. It pressured the government to distribute land under the agrarian reform law to the landless rural poor, and it organized those who received land into base groups affiliated to itself.

Today ANACH reports it has 1,419 member groups, including cooperatives, local organizations and campesino groups with a total of 80,000 - 90,000 individual members. However, local experts believe actual membership to be less than 25,000. Its primary organizational unit remains the base group. These base groups are organized around jointly-owned farms called "local organizations" composed of approximately 8 to 30 families. These families collectively hold the property although the National Agrarian Institute (INA) generally still retains the title. Agricultural operations vary with base group. Most groups collectively farm a part of their land for commercial sale and divide the remaining land into family plots for household consumption or commercial sale.

Approximately 38% of the base groups have been organized into sixteen regional agricultural cooperatives (CARs). These CARs provide member base groups with cash or in-kind production credit as well as sell seeds, fertilizers and pesticides. Some CARs also market crops, rent farm machinery and provide technical assistance through agricultural extensionists. One CAR has even attempted to provide a basic health facilities to the members.

FECORAH/UNC: Neither FECORAH nor the UNC organizations have a history of working toward solving access problems in an efficient manner. They generally have used political accommodation rather than market solutions to resolve access problems of their members. Given this orientation and the current organizational structures, they are unlikely to make significant contributions to the goals of increased production, investment and foreign exchange generations during the life of the project.

In the case of FECORAH, the cooperatives are generally so small that they have no chance of being viable, well capitalized businesses. The exception to this rule are the groups that produce potatoes, shrimp, and bananas. These groups could become well capitalized businesses and contribute to the project's goals. During much of 1991, the FDF and FECORAH discussed this issue about FECORAH's business structure. The outcome has been FECORAH's decision to develop a strategy to support the creation of viable sized businesses with clear ownership rights for capitalization. Since FECORAH's structural issues continue to constrain its productive impact, the SFAD project will not work with FECORAH organizations until it has resolved these structural issues.

The SFAD project will apply the same analysis for individual FOBs which are affiliated to the federations during the implementation of the project. It is estimated that 30 - 40 FOBs will participate in the strengthening and growth activities.

V. PROJECT OBJECTIVES

The project proposes to impact agricultural production and the generation of foreign exchange and employment through the strengthening and growth of farmer-owned businesses. The SFAD project will work with the operational dimensions of the FOBs as they affect production, employment and export potential.

A. **Goal:** Increased private sector investment and trade. This will be measured by the increase in investments by farmer-owned businesses (FOBs) and by the volume and value of products sold both domestically and to export markets.

B. **Purpose:** To increase production, value added processing and agricultural exports of FOBs.

C. **End of Project Status:** Achievement of the project's purpose will be measured by the following indicators:

- **Production Increases:** Production increases will be measured for each significant crop which at the project's outset will include coffee, corn,

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rice and melons. Production increases will be monitored as part of the project information system which will track the amount of product being received by the FOBs for storage, processing and/or marketing. On the average, participating FOBs will expand their receipt of product 30 - 40% which will include an additional 176,000 qq of coffee, 272,000 qq of corn, 83,000 qq of rice and 213,000 boxes of melons.

- **Employment Increases:** As a result of the expected production increases and new investments, FOBs and member farms will generate new equivalent full time employment for approximately 10,000 people. This includes both direct employment (in the FOBs themselves) and indirect employment (related to on-farm labor).
- **Foreign Exchange Earnings:** By strengthening FOBs involved in the processing and marketing of exported products, the project will cause the generation of an additional \$15 million in foreign exchange by 1997 of which \$9.1 million will be directly attributable to the project.
- **Value-added Processing:** The project will calculate and monitor value added processing from existing as well as new FOB investments. These are expected to result in net value added to the Honduran economy exceeding \$10 million by 1997.

D. **Outputs:** The project's activities are expected to result in:

- 30 - 40 FOBs that are providing services to members in a self-sustaining and financially viable manner. This will be verified by measuring the number of FOBs assisted by the project that have increased sales, reduced unit input distribution costs, reduced unit marketing costs, reduced unit processing costs, and increased revenues from operations. Specific indicators include reducing the coffee discount of project participants vis a vis Central America by 70%, reducing input distribution costs by 25%, reducing processing costs for coffee, rice and melons by at least 25%, and reducing credit intermediation cost to 7% including the cost for technical assistance.

The project will measure the financial strength and viability of these FOBs in terms of the numbers of FOBs that are operating profitably, by measuring the increased sales and profits for each FOB, and by calculating the growth and return on assets, investment, and member equity. Specific measurements will include at least 90% of participating FOBs will be operating at a profit, sales by all participating FOBs, on the average, will increase by at least 50%, and FOB owner equity and reserves will average 30% of assets for all participating FOBs.

- 30 - 40 new agribusiness investments being undertaken by FOBs and their federations or associations. This will be measured by tracking the number of feasibility studies conducted by the agribusiness investment unit, the number of investment proposals presented to banks for financing, the number of loans approved for new investments, and the number of

investments actually implemented by FOBs. Specifically, the project expects to finance or assist in the preparation of 50 feasibility studies which will yield 30 - 40 operational investments which possess returns on investments (ROI) greater than 15% expressed in dollars.

- Participating federations will operate at a profit through the sales of goods and services to their member FOBs. Specifically, participating federations will realize at least 35% returns on their equity (ROE).

VI. PROJECT DESCRIPTION

Using the knowledge and experience gained during the implementation of the SFOS project, the SFAD project will increase its focus on those farmer owned businesses with high potential for contributing to the economic growth of Honduras. A preliminary analysis indicates that those FOBs most likely to have a significant impact on production, foreign exchange and employment are agricultural service cooperatives with a focus on export-oriented crops such as coffee, melons, vegetables, and banana/plantain. Those FOBs which have business activities focused on basic grain crops also can now have a positive effect given the more accurate market signals which the GOH is sending through a rational pricing policy for basic grains.

A. Strengthening - Positioning for Growth

The discussion in Section IV describes the groups of Honduran FOBs being considered for project participation. While some cooperatives have sound management systems and are able to develop strategic plans and decisions which contribute to financial sustainability, the majority of FOBs suffer from a lack of sound administration, information, and management. Unless these groups are able to overcome this constraint they will continue to be handicapped in their ability to increase production and farm income. In order to address this factor, the SFAD project will use a strategy of Management Restructuring coupled with a Financial Restructuring plan. Strengthening activities will be implemented by the Financial Development Fund (FDF), a development finance institution established in 1987 under the SFOS project.

1. Management Restructuring

Management Restructuring is a long-term, participation oriented, activity through which the FOB develops and implements solutions to fundamental weaknesses in its structure. The first phase of Management Restructuring will focus on the administrative strengthening of the farmer owned businesses which have potential to contribute to the project's objectives. These businesses will undergo a three-step process to resolve administrative and management problems. These steps encompass a diagnostic analysis of each FOB's strengths and weaknesses, preparation of a business plan, and the negotiation of a restructuring agreement that details the required changes the FOB will make in its management structure.

a. Diagnostic Analysis

Using a participative process, the FDF and the FOB will analyze and review in detail the business' financial and operating performance to identify problems and constraints that exist in its principal functional areas (organization/administration, production, processing, marketing, and financial and control functions). The diagnosis will be carried out by a technical team composed of representatives from the FDF, the applying FOB, and the parent organization or cooperative federation. Outside audit findings also may form part of the diagnosis. In order to qualify for continued assistance, the FOB's governing board must accept and approve the diagnosis and its conclusions.

b. Business Plan

Based on the diagnostic's findings, the applying FOB, with FDF assistance, will prepare a five-year business plan that defines (or redefines) the organization's mission and charter and sets out its long-term goals. Based on this long-range business plan, it will develop annual (pro-forma) operating plans and financial budgets. The FDF and the FOB's governing board must formally approve the long-range business plan and the first annual operating plan and budget. Once approved, the applying FOB qualifies for project participation. The annual operating plan then becomes the key approval document for providing project assistance.

c. Restructuring Agreement

Each participating FOB and its umbrella organization must enter into a formal agreement with the FDF that specifies the conditions it must meet to qualify for full participation in the SFAD project and the time period it has to comply with these conditions. These agreements require the adoption of sound, businesslike management procedures including:

- a) the adoption of strict lending policies with members;
- b) the installation of accounting and budget control systems;
- c) the development of professional staff capabilities and adequate personnel policies;
- d) the development of member capital participation programs; and
- e) the creation of sufficient reserves to develop a shield against financial setbacks.

Based on the annual operating plan and budget, the agreement will establish benchmarks to measure FOB performance. The FOB will submit monthly financial statements and quarterly progress reports to the FDF which it will use, as well as periodic visits, to track the FOB's success in meeting the benchmarks and to ensure its compliance with the terms of the agreement.

2. Financial Restructuring

a. Rationale for Financial Restructuring

Once the organization has successfully completed its management restructuring it may still face heavy debt burdens and liquidity crunches. Traditional biases of the private financial sector against agriculture, as well as accumulated debt

resulting from previous faulty production and marketing decisions may constrain the FOB's achievement of expected production or processing goals. These factors create a financial squeeze in which FOBs have few sources of credit and debt service obligations greater than their repayment capacity. Until the financial pressure is addressed, the FOB will be unable to take advantage of opportunities for expanded production and growth of operations.

Given this predicament, the cooperative has only three options: it can be liquidated, which as a practical matter seldom occurs; it can continue to exist but with very limited activity, probably consuming over time its fixed and working capital; or, with external assistance, the FOB can undergo financial restructuring to help it realize its potential contribution as an efficient agribusiness.

The third option of financial restructuring allows an institution with a demonstrated potential for achieving long term viability the opportunity to regain its solvency. "Normalizing" or "stabilizing" agribusiness FOBs will be used as a tool under the SFAD project only when an in-depth analysis has determined that the economic costs of financially strengthening a FOB are less than the benefits and potential impact of that FOB. This analysis will be carried out by the FDF with input from the TA team as required.

Financial restructuring has been used in both the U.S. and Canada to stabilize agricultural cooperative organizations in financial difficulty with positive results. For example, during the early 1980s, declining agricultural markets coupled with the financial crisis critically weakened a large number of farmer-owned businesses that were affiliated to Cenex/Land O'Lakes. Cenex/Land O'Lakes encouraged the merger of many of these businesses, allowed those that were not viable to fail, and in eleven cases successfully implemented detailed financial stabilization workout programs. The workouts involved market rate lines of credit, supply agreements, forbearance agreements, and detailed conditions to be met by the cooperatives which included sales of non-earning assets, board and management changes, and financial targets.

The FDF, under the SFOS project, has initiated financial restructuring workout agreements with seven UNIOCOOP affiliated agricultural service cooperatives. One of these agreements transformed the Candelaria coffee cooperative from an undercapitalized entity into an aggressive business which has increased its coffee sales from 7,048 cwt. in 1988-89 to 9,600 cwt. in 1990-91, and a projected 12,000 cwt in 1991/92.

b. Financial Restructuring Mechanisms

Several mechanisms can be used to achieve financial restructuring. These include the liquidation of the FOB or the elimination of non-performing assets, debt moratoria or forbearance conditions, debt restructuring through the deferral of interest or principal payments, a consolidation of creditors, a rescheduling of loan commitments, interest or principal buy-downs, the use of loan guarantees, and long-term loans. Each organization's financial circumstances will determine which of these various mechanisms will be applied.

c. Guidelines for Financial Restructuring Operations

Because some financial restructuring mechanisms result in a loan to a FOB which otherwise would not be credit worthy, financial restructuring is perceived as a quasi-credit operation. In order to align the use of these resources with Agency and Mission Financial Markets Development policy and to avoid distorting financial market operations, the following guidelines will govern the implementation of the project's financial restructuring operations.

- All financial restructuring operations which require project resources will be carried out on a non-subsidized loan basis.
- Interest rates paid on these loans by the recipient FOB will be market determined and will be adjusted periodically.
- Financial restructuring agreements will be for a definite period of time which will not exceed five years.
- Financial restructuring will not seek to improve the FOB's leverage position beyond an equity to assets ratio of 35% based on its end of year balance sheet.
- To provide an incentive for extraordinary performance, the financial restructuring agreements may contain a debt forgiveness clause not to exceed 20% of the original principal amount of the operation. This clause may only be activated in the final year of the agreement and will be conditioned upon satisfactory and sustained compliance of the FOB with the financial restructuring agreement. Special attention will be given to reaching targeted financial indicators including repayment of financial stabilization funds.

d. Anticipated Financial Restructuring Operations

The SFOS project has implemented seven financial restructuring operations. The SFAD project will expand these financial restructuring operations to approximately 20 other FOBs. Due to the complex financial profile of each FOB, complete and in-depth analyses have not been carried out yet on each prospective candidate. These analyses will be carried out by the FDF as part of project implementation. However, based on preliminary information, it is estimated that the project will need to invest about Lps. 16.205 million in the financial restructuring of these organizations. The chart below presents an illustrative breakdown of these funds. These amounts were derived from institutional analysis of specific organizations and estimated average costs for expected new entrants. The estimated average costs are based on historical costs for treating these types of organizations.

ESTIMATED REQUIREMENTS FOR FINANCIAL RESTRUCTURING (L. 000)					
AHPROCAPE		UNIOCOOP		ANACH	
TUTULE	400	COAGROVAL	1,200	CARCOMAL	750
TALANGA	300	COMARCA	2,500	CARPIHL :	280
SAN LUIS	300	OTHERS (7) ¹	6,000	CARCOL	675
SANTA BARBARA	300			CARNOL	1,300
ELIAS VILLEGAS	700				
OTHERS (6) ²	1,500				
TOTAL	3,500	TOTAL	9,700	TOTAL	3,005

B. Growth - Taking Advantage of Opportunities

Once FOBs achieve successful management and financial restructuring, the logical extension will be to expand the horizons of their enterprises. Only those businesses that have made the fundamental changes which accompany the restructuring process will be able to fully exploit the range of opportunities they will encounter in the production and service areas. Because the project follows a gradual continuum from strengthening to growth activities, FOBs will be able to participate in both activities concurrently. Initial forays into growth opportunity identification, training and feasibility studies will take place at the same time an institution will be carrying out its management and financial restructuring program.

Participation in the project's growth activities will require a "seal of approval" from the FDF, in the form of a certificate of eligibility, based on the following essential requirements:

- a three-year history and two-year projection of growth of members, sales, assets and equity.
- a well-defined ownership structure, specifying all classes of outstanding stock.
- mechanisms for member capitalization of the organization.
- member capitalization threshold whereby equity and reserves equal at least 20% and preferably 30% of assets.

¹ Assumes average cost of L870,000 per business

² Assumes average cost of L250,000 per business

- evidence that the FOB has implemented the necessary administrative and accounting reforms.
- evidence that the FOB has and enforces strict policies for providing credit to its members.

The project will encourage those eligible FOBs to develop new business activities that build upon their existing established operations. On the basis of the FOBs strategic plan, the project will assist the business to identify and prioritize possible new business activities. These new business activities will include the establishment or expansion of input supply businesses, the addition of value-added processing of products which the organization's members already produce (i.e. rice milling, coffee processing, vegetable processing, etc), or investments in new products or services which offer profitable market opportunities.

This is an incremental process. Therefore, it will be important to assess the relative impact of new opportunities on an organization's on-going activities. Preliminary analysis indicates that the potential impact from new and expanded activities will be export sales of \$9,078,000; additional employment of 9,945 person years, and net returns of \$3,468,000.

For the Growth component to be successful, FOBs will need access to innovative production techniques, market development expertise and processing technology. Therefore, this component will be executed separately from the strengthening activities, and be managed as part of the technical assistance contract. By housing this component with the technical assistance team that also provides assistance to the FDF in the Strengthening Component, the contractor can have input into, and be appraised of, the FDF's strengthening activities and at the same time establish direct assistance relationships with the participating federations and FOBs. The FDF will not implement this component in order to effectively continue enforcing the conditionalities incorporated in its management and financial restructuring agreements.

1. Screening Methodology for Selecting Opportunities

Proper analysis of new business investments is extremely important to ensure adequate use of scarce capital, staff and time resources. Proper evaluation helps to optimize investment decision-making and business profitability. In the SFAD project, the evaluation of new business opportunities will be the means by which FOB management and owners can methodically develop a set of credible facts, subject them to critical analysis, and arrive at sound conclusions concerning the wisdom of alternative investment opportunities. The project will use a highly participative screening methodology to assure "buy-in" by FOB owners and management, and dissuade them from investments in activities that are unprofitable or not beneficial to the members/owners.

The project's technical assistance team will involve the management of stabilized businesses in a three step process to develop the capability to identify, prioritize, and select among new business investments. This process will include updating the organization's strategic business plan, prioritizing potential

opportunities against selected criteria, and conducting feasibility studies of the best potential opportunities.

Step 1: Update Strategic Business Plan

All the participating institutions will have developed strategic business plans as part of their restructuring process. However, some of these plans may be outdated. In these cases, updating the business plan will cause management to review achievements and to set new business objectives and time frames for action plans.

As part of this process, the FOB will develop profiles of its strategic business units (SBUs). For example, an UNIOCOOP affiliate, COHORSIL, processes coffee, provides credit and technical assistance for horticultural crops, and sells input supplies. Each of these is a separate SBU and requires a profile.

After profiling its SBUs, the FOB will identify and analyze each unit's critical business facts including production, cost structure, market position, customer base, number of members participating, revenues, and past profitability. The analysis also will consider the three primary agribusiness stages associated with the SBU - raw material (production), market, and process (value added). Based on this information the FOB will develop an exhaustive list of all investment possibilities with each SBU.

Step 2: Prioritize Opportunities Against Selected Criteria

After the FOB has developed a list of potential opportunities, it will rank these against criteria that include benefits to cooperative members, cooperative management support, timing of investment, existence of adequate technology, raw materials, labor, markets and financing. Certain criteria are more important than others and should be weighted accordingly. For example, projects entered into by the business must be profitable at market interest rates. Therefore, the financial criteria relating to return on assets or investments should receive a higher weight than criteria related to market strength. The FOB will judge each potential opportunity against the established, weighted criteria, and rank order the opportunities according to their potential contribution to the business.

Step 3: Conduct Feasibility Studies for Selected Projects

After ranking the potential opportunities, the FOB will select the top one or two and prepare scopes of work for in-depth studies of their feasibility. The feasibility studies will detail the project's conceptual design, develop the technical and market facts, analyze its financial attractiveness, and outline an implementation plan. The feasibility study will serve three purposes: it provides the basis for a decision by the FOB's board of directors on the project, it provides the FOB with the rationale and basis for requesting bank financing for the project, and it develops and organizes the initial information base which the FOB will need for managing the business. The feasibility studies will be conducted by a team composed of a person from the FOB, an expert in the particular area being studied, a representative of the technical assistance team, and a representative from the FOB's umbrella organization.

2. Growth Opportunities

Farmer owned businesses that participate in the SFAD project provide a variety of services to members that center around input supplies, agro-processing, and marketing and export services. Expanding these services will be the most likely opportunities for new business activities.

The agribusiness investment unit will assist each participating FOB to base its investment decisions on information contained in the feasibility studies. For an investment to proceed, the study must show that the investment:

- will result in an positive net present value, i.e. that it will be profitable.
- will positively impact on the FOB's equity/asset ratio. This measures the impact on business activity.
- can be implemented without encountering liquidity shortfalls to the other FOB operations. The feasibility study must include a pro-forma corporate financial statement that demonstrates positive working capital during the investment start-up and operation.
- positively impact employment in the target area. The feasibility study will estimate the employment impact of the investment, disaggregated by gender.
- may positively impact foreign exchange generations. The feasibility study will assess the foreign exchange impact of the investment.

a. Inputs and Supply Services

A reliable supply of low-cost farm inputs is critical to the success of the participating organizations and is an indispensable condition for accomplishing the project's objectives. Many FOBs will choose to establish or expand input supply outlets as one investment alternative. With proper management, the input supply business is a sound investment that in the short-term can make a significant contribution to the FOBs' capital base. FOBs may choose to develop this type of business activity through investments such as:

- The construction of a fertilizer mixing plant.
- The construction of a farm chemicals blending plant.
- The construction of a facility for seed treatment.
- The construction of storage facilities and retail outlets for farm supplies.
- The development of farm equipment services.

Transportation services and the leasing of warehouse space for farm products are other possibilities. Within the UNIOCOOP system, eight FOBs already have farm input supply businesses. Using these as examples, retailing farm input supplies requires a minimum investment of Lps 100,000, offers a return on investment of about 18%, and employs 2 - 5 people full-time.

b. Agro Processing Services

The agro-processing industry in Honduras is still relatively unsophisticated. Agricultural products grown for local consumption generally are distributed fresh, or in the case of grains, dried and bagged. Canned or bottled products account for a relatively low percentage of local consumption. Most export products receive only first-level processing: fresh fruit and vegetable exports are selected, cleaned, and packed in export cartons; coffee is processed, selected, and blended according to the customers' requirements and exported in sacks; shrimp exports undergo the additional steps of deshelling, deveining and blast freezing prior to export.

1) Coffee processing

Many opportunities exist for value-added processing of agricultural products grown in Honduras. Of particular importance is coffee processing. At present, the international coffee markets discount Honduran coffee about \$10 per hundredweight (cwt) due to poor quality. Most Honduran coffee is grown by small-scale producers in relatively isolated locations. Most of these producers lack ready access to adequate processing facilities. This leads to improper and delayed de-pulping, fermenting, selection, and drying of coffee beans which results in coffee with poor flavor. Ideally, coffee farmers would have easy access to a coffee processing facility near the farm which has the capability of processing their coffee at least to a pre-drying phase which then can be transported to a drying facility at the FOB with no loss of quality.

This widespread need presents the FOBs in the coffee business with special opportunities to invest in expanded processing and marketing services. Once the basic first stage processing constraints are resolved, there exist further value added possibilities in the processing of instant coffee and the development of "gourmet" coffees for specialty markets. Finally, the FOBs can use their storage facilities and coffee drying equipment during the off season for business activities centered around the purchasing, drying storage and distribution of rice and other basic food grains.

Four FOBs in the UNIOCOOP and AHPROCAFE systems already have installed drying/processing facilities. At this time, no information is available on the rate of return generated by these investments since the costs and benefits are incorporated into the returns of the FOBs' other business activities. Two years ago, one FOB invested L. 1,000,000 in its coffee drying facility. Since making that investment, it has increased its coffee receipts by 25,000 cwt, generated full time employment for 10 people and will generate approximately \$1.8 million in foreign exchange earnings this year.

2) Other Crop Processing Services

Many FOBs have opportunities for profitable businesses in processing products their members already produce or by encouraging the diversification into new crops. For example, one group is considering an investment in a cashew processing facility. A feasibility study already conducted estimates that this

will require a L. 2,000,000 investment, generate a 30% rate of return, employ over 70 people full-time, and generate \$260,000 in foreign exchange earning each year.

Similarly, various groups whose member/owners produce fresh fruit and vegetables have opportunities to install or expand export packing facilities. One melon coop recently invested \$950,000 in another export packing line. This investment offers a rate of return exceeding 50%. It enables the FOB to expand its melon exports by 150,000 boxes which will generate an additional \$600,000 in foreign exchange of which \$300,000 will remain with the business as value added to the product from export packing. The facility also generates employment for over 60 people, many of which are women, during the harvest season.

Similar opportunities exist for other farm-owned businesses whose members produce products such as plantains and vegetables. In addition, many member/owners of these cooperative businesses produce other crops in rotation that offer processing possibilities. For example, members of the melon coops produce sesame seed as a rotation crop. At this time, only CREHSUL has profitably exported limited quantities of cleaned and graded sesame seed. Investments in precleaning equipment, more efficient cleaning and grading equipment, and hulling equipment could prove to be good businesses for these FOBs.

Other investment opportunities exist in cleaning and milling, rice, processing cotton seed, or in freezing and drying fruits and vegetables. All these investments add value to, and expand marketing opportunities for, FOB member/owners products while creating new profit centers for the FOB.

C. Relationship of Financial Services

Since the success of the project depends on the adequate and timely delivery of credit, the project will help the participating FOBs become self-reliant in obtaining and administering credit from commercial financial institutions in Honduras.

1. The Need for External Financing

Credit required by the FOBs normally falls within four distinct categories:

- Short-term production credit.
- Short-term credit for marketing or input supply operations.
- Intermediate term credit for farm or business improvements.
- Longer term credit for processing facilities or other agribusiness investments.

Short-term production credit is the normal seasonal borrowing required by farmers to finance the growing of crops. The amount borrowed covers the out-of-pocket cost for labor and materials required to maintain the crop through harvest, packing, and shipping. Under normal circumstances, loans are made at the beginning of the crop season, and repayment is made at the end of the season.

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Short term credit for marketing or input supply is a normal seasonal requirement by the agro-processor or other middlemen in the agribusiness chain. For example, in the case of coffee, the FOB or coffee processor who receives pre-dried coffee from individual growers needs a line of credit during the harvest season to pay growers against coffee deliveries. This credit finances both the inventory of coffee-in-process and processed coffee to be exported. This credit is rolled over every two months and is rotated approximately three times during the coffee production season. The basis for this credit is production volume.

Intermediate credit finances farm improvements such as farm coffee processing and drying facilities, farm irrigation systems, fencing, pasture upgrading and improvement, and investment in perennial crops such as plantains, bananas or mangos.

The demand for long-term credit for agribusiness investments by participating FOBs will depend on the extent the project is successful in bringing about new investment opportunities. Based on the goal of 30 - 40 new investments over the five year life of project, and assuming an average loan requirement of US\$200,000 for each project, the amount of credit required from the private sector is estimated to be US \$7,600,000.

The discussion above illustrates the range of credit needs. Through the SFAD project, FOBs will become financially strengthened such that they will be viable candidates for funding from the private financial sector. In addition, during the development of new business opportunities, technical assistance will be provided to assist FOBs in preparing business plans and loan applications to be submitted to lenders.

2. Internal Financial Administration

Assistance will be channeled through the FDF. The project will assist participating FOBs improve their internal administration and control of credit. This assistance will focus on credit systems, MIS and

Credit Systems: Assistance will be provided to design, develop and implement credit systems which support the strategic mission of the benefiting organization. Areas to be covered include loan portfolio planning and management, loan analysis and processing, interest rate determination, and loan supervision for loans made by the participating organization.

Management Information Systems: The FDF and the TA team will assist the participating organizations in developing and upgrading computerized information systems for operations management, financial management and accounting.

Financial Management Advice: The FDF will advise and assist the participating FOBs in developing and implementing financial stabilization programs which have a strong emphasis on business capitalization. Primary activities will include financial analysis, the design and implementation of financial restructuring plans, capitalization, and monitoring of financial performance.

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In summary, the FDF's activities will lead to the following results:

- Financial restructuring and capitalization programs will be put into effect which will strengthen the balance sheet and directly improve the equity positions of participating FOBs. The improved financial structure will make the organization more credit worthy.
- The FDF will help the participating organizations to develop internal credit systems which will improve their performance in the management of loans to, and accounts receivables from, members. Improvements in this area will improve cash flow and thereby translate into lower credit needs by the affiliated organizations.
- The FDF's account managers ("project managers") will be available to assist the participating organizations in making loan applications and with loan negotiations with the commercial banks for financial restructuring operations.

**ANNEX F
DETAILED COST ESTIMATES**

DETAILED COST ESTIMATES

I. PROJECT INPUTS

This section discusses the types of inputs required for project implementation. The financial plan provides additional information as to the cost of the inputs.

A. Technical Assistance Team

Project implementation will be carried out jointly by the FDF which will take the lead in Strengthening activities and by an independent, temporary Agribusiness Investment Unit staffed by the TA contractor which will be responsible for the implementation of Growth activities. In addition, AIFLD will carry out a separate local currency funded program with ANACH and its cooperatives preparing them to enter into the FDF-implemented Strengthening program. Long term advisors will work with the FDF and Agribusiness Investment groups and will be supplemented by short-term experts hired for specific, targeted project activities.

The technical contractor will provide assistance under a performance based completion type cost reimbursement contract. The contractor will be required to describe the type and number of people it will need to achieve the project outputs. Budget estimates in this section are based on one possible personnel configuration and are for illustrative purposes only. The actual composition of the technical assistance could vary.

B. Project Management

The project will be managed by a PSC AID Project Manager. This person will be assisted by an Assistant Project Manager. All management staff will be funded from the project, as well as the necessary office support required by these people. The level of support is indicated in the Cost Estimates and Financial Plan.

C. Training and Observational Tours

Training is an integral part of the project strategy. It will develop the skills needed to support the restructuring and growth activities. Such skills may be in specific managerial, administrative, financial, technical, or agricultural areas. Most of the training will be conducted in-country in the form of workshops and seminars sponsored or conducted by the FDF, the federations, or the TA team. The technical assistance team will also provide on-the-job training.

All project sponsored classroom training and observational tours will directly relate to proposed outputs. To the extent possible, individuals and participating organizations will bear part of the cost of carrying out the training. Fixed costs of curriculum development, seminar preparation and materials development will be project-financed.

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ANNEX F
DETAILED COST ESTIMATES

Training will be carried out through competency based instruction in which the missing skills or knowledge are first defined, and then a program is developed which including materials, trainers, and some cases training events with pre- and post-testing of participants to measure the learning which takes place. To date this methodology has been used successfully in training processing techniques for coffee quality and for the agronomics of fertilizer use in the tropics.

Topics likely to be covered in the SFAD project include:

- agribusiness project analysis,
- coffee wet milling, drying, dry milling, grading, and marketing,
- techniques of cost center accounting and reporting for FOBs,
- the agronomics of fertilizer use in the tropics
- business aspects of input supply cooperatives such as inventory control, pricing policy, and fertilizer procurement, bagging, storage, shipping, and distribution, and
- credit administration.

The sources of training programs, training materials, or trainers might include such local or regional sources as the FDF, the federations, or specific courses from FHIA, the PanAmerican Agricultural School (Zamorano), INCAE, CATIE, GEMAH, INFOP, CADERH, or other sources of specialized short courses and training materials in Honduras or Central America. Although most of the training will be conducted in-country using Honduran resources, for certain topics it may be advantageous to use United States source training programs where special expertise or relevant experience exists. A number of courses have been developed by U.S. institutions in such areas as rice milling, agribusiness project analysis, and financial restructuring which may be used "off the shelf" or as modified for use by the project.

A specific form of training outside of Honduras is observational travel which may be taken to view specific lines of business activity underway or being considered in Honduras. Observational tours will be preceded and followed by related training in Honduras. A written report will be prepared by participants of the trip's findings and conclusions about the applicability of the observed cases to the Honduran FOBs.

For the SFAD project, the likely topics of interest for observational trips are the activities of cooperative farm supply FOBs in the U.S.; coffee milling and marketing activities in Costa Rica, Guatemala, or Colombia; rice milling in the U.S. or Central America; melon production and packing operations in Mexico and the United States; and financial restructuring programs in Guatemala, Costa Rica, or the U.S. An especially important type of observational trip is to trade fairs and conventions in which participants are exposed to the requirements of buyers and the marketplace. These events could include such topics as food and drug standards, pesticide use and control, the U.S. Produce Marketing Association, the Guatemalan Ag Export Exposition, the U.S. Gourmet Coffee Marketing Association annual meeting, and the Ag Export Expo in Cologne, Germany. In summary, the trips will be used for attending trade fairs to view new technologies and equipment; to meet industry specialists in particular product lines, to meet input suppliers especially in the U.S. for fertilizer and ag chemicals; and to

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**ANNEX F
DETAILED COST ESTIMATES**

meet buyers, importers, distributors and brokers to better understand the demands of the market, the channels of distribution, and the product quality requirements. The project will follow Handbook 10 procedures for all training and observational tours.

D. Commodities

The commodity requirements for the SFAD project are fairly limited and include: computer equipment and software, vehicles for use by the FDF and the advisors and radios for the FOBs and their federations. In addition, the project will finance the lab equipment required for quality control at coffee processing facilities. Additional support will also be available for the purchase of office equipment and furnishings, and on occasion, equipment needed in operations. Computer purchases for FOBs will be co-financed with the project financing approximately 50% of the cost while the FOBs pay the other 50%.

E. Management Restructuring Support

The management restructuring grants are utilized to underwrite a portion of the salaries and operational expenses of the FOBs and the federations/associations as these groups work through the financial restructuring. In those cases where the organization is undergoing an economic restructuring program sponsored by FDF, a necessary condition for restructuring is that a controller, appointed by FDF, be assigned to the organization. Otherwise, under normal operating conditions it is planned that each participating organization will have in place a basic management team capable of carrying out the operating plans. This management team will consist of: a) a general manager, b) a field/production technician, and c) a chief accountant or controller. Project funds will be used for a limited time period to ensure that a management team is in place. If the participating organization is financially unable to fill one or more of the key positions, the FDF will partially reimburse the payroll cost of the position on a declining scale, over a three year period as follows:

	Year 1	Year 2	Year 3	Year 4
Percent reimbursable	100 %	67 %	33 %	0 %

FDF and AIFLD will also be supported from project funds. Information as to the level of that support is provided in the Financial Plan.

F. Financial Restructuring

Financial stabilization funds will be provided by the FDF to the FOBs and the federations based on thorough analysis of the financial requirements of the enterprise. These funds will be placed in trust with a commercial bank and disbursed upon instructions by the FDF after a stabilization agreement is negotiated with the enterprise and approved by a committee comprised of representatives of FDF, the GOH, and the FOBs. Conditions for the use of these funds and initial resource requirement estimates are set forth in the Project Description section.

ANNEX F
DETAILED COST ESTIMATES

II. Cost Estimates and Financial Plan

A. Financial Costs

The total cost of the Farmer Access to Services and Technology project is \$13.060 million, consisting of \$6.5 million in AID financing and the local currency equivalent of \$6.560 million in GOH counterpart contribution. The previous section on project inputs describes the use of AID dollars and GOH counterpart funds. GOH Counterpart will be made available from PL-480 Title III generations and will be managed in accordance with procedures for that program. This section provides cost estimates and anticipated budgetary requirements over the five year life of project.

The financial tables are presented for dollar and local currency costs over the five year life of the project. Table I presents AID project costs by inputs; Table II presents counterpart costs, and Table III provides a breakdown of costs showing the relationship of project inputs and outputs. Table IV is an illustrative projection of obligations and expenditures by fiscal year. Table V illustrates the proposed obligation and expenditure schedule by fiscal year. Table VI presents a breakdown of costs related to training and observational tours.

B. Methods of Financing and Disbursement

The majority of AID financed inputs will be expended through a direct institutional contract. The contractor shall be responsible for the provision of long and short term technical assistance, carrying out training and observational tours, and for the procurement of project financed commodities. Separate contracts will be executed for project management, support staff and related commodities. In addition, AID will contract directly for periodic evaluations, studies, project audits. The methods of financing and disbursement for the AID dollar component are detailed in the Table VII.

C. Audits

The project has budgeted \$125,000 to contract for independent non-federal audits of project activities. The audit section of the Regional Inspector General's Office will supervise these audits, and may make its own periodic audits of the use of project funds. In addition to these audits, because this project will be executed under a Handbook 3 Bilateral Grant Agreement with the Government of Honduras, the Controller General of the Republic may also audit the project. Audits financed by this line item will be additional to the annual audits required for each institution that participates in the project's Strengthening and Growth activities.

FRANK CARROLL
Controller

3/11/92
Date

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INPUTS Component/Componente	TABLE I/CUADRO I					
	YEAR 1 ANO 1	YEAR 2 ANO 2	YEAR 3 ANO 3	YEAR 4 ANO 4	YEAR 5 ANO 5	TOTAL Total
Technical Assistance Asistencia Tecnica	0	0	0	0	0	0
Project Management Manejo del Proyecto	0	0	0	0	0	0
Commodities Bienes	45	110	175	170	125	625
Training and Observational Tours Capacitacion	45	110	175	170	125	625
Evaluation/Studies Estudios y Evaluacion	25	25	125	25	100	300
Audits Auditoria		50		75		125
Operational Support Apoyo para Operaciones	560	532	421	218	37	1,769
Coop Institutional Strengthening Apoyo Institucional	348	511	477	272	41	1,648
Coop Financial Stabilization Estabilizacion Financiera	1,009	875	722	296	241	3,144
TOTAL AID GRANT Donacion Total	115	295	475	440	350	1,675
HC Counterpart Contraparte del GdeH	1,918	1,918	1,620	786	318	6,560
Total Cost/Costo Total	2,033	2,213	2,095	1,226	668	8,235

TABLE II

	1992 YEAR 1	1993 Year 2	1994 Year 3	1995 Year 4	1996 Year 5	Total
FOF/Implementing Agency Budget	1,800	1,500	1,150	750	0	5,000
UNIOCOOP Budget	500	400	400	300	200	1,800
UNIOCOOP Institutional Strengthening						
20 de Marzo	80					
Fruta Del Sol	100					
Algoeur	150	100				
Coagroval	100	80				
Comarca	125	70				
New Affiliates (1-7)	200	600	450	350	150	
Subtotal UNIOCOOP IS	765	850	450	350	150	2,565
UNIOCOOP Financial Stabilization						
20 de Marzo	0					
Fruta Del Sol						
Algoeur						
Coagroval	1,200					
Comarca	2,500					
New Affiliates (1-7)		2,000	2,000	1,000	1,000	
Subtotal UNIOCOOP FS	3,700	2,000	2,000	1,000	1,000	9,700
SUBTOTAL UNIOCOOP	4,965	3,250	2,850	1,650	1,350	14,065
AHPROCAFE Budget (Coffee Training)	300	250	150			700
AHPROCAFE Institutional Strengthening						
Tutule	125	125				
Talanga	125					
San Luis	125					
Santa Barbara		125	125			
Choluteca	125	125				
Yoro	125					
Elias Villegas		125	125			
Suyutal	125	125				
New Affiliates (6)		125	500	625		
Subtotal AHPROCAFE IS	750	750	750	625	0	2,875
AHPROCAFE Financial Stabilization						
Tutule	400					
Talanga	300					
San Luis	300					
Santa Barbara		800		300		
Choluteca						
Yoro						
Elias Villegas		700				
Suyutal						
New Affiliates (6)		300	600	300	300	
Subtotal AHPROCAFE FS	1,000	1,800	600	600	300	4,300

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TABLE II

	1992 YEAR 1	1993 Year 2	1994 Year 3	1995 Year 4	1996 Year 5	Total
SUBTOTAL AHPROCAFE	2,050	2,800	1,500	1,225	300	7,875
ANACH (Secretariat of Cooperatives)	175	225	225	125	0	750
AIFLD	450	500	350			1,300
ANACH CAR Institutional Strengthening						
CARCOMAL	125	125				
CARPIHL		125	125			
CARCOL		125	125			
CARNOL			125	125		
Subtotal ANACH CAR IS	125	375	375	125	0	1,000
ANACH CAR Financial Stabilization						
CARCOMAL	750					
CARPIHL		250				
CARCOL		675				
CARNOL			1,300			
Subtotal ANACH CAR FS	750	925	1,300	0	0	2,975
SUBTOTAL ANACH	1,500	2,025	2,250	250	0	6,025
Total Institutional Support	3,025	2,875	2,275	1,175	200	9,550
Total Institutional Strengthening	1,640	1,975	1,575	1,100	150	6,440
Total Financial Stabilization	5,450	4,725	3,900	1,600	1,300	16,975
Training Support Costs	240	784	999	369	69	2,461
GRAND TOTAL	10,355	10,359	8,749	4,244	1,719	35,426
Inflation Estimates	20%	15%	10%	8%	5%	
Exchange Rate*	5.40	5.40	5.40	5.40	5.40	
Dollar Equivalent	1,918	1,918	1,620	786	318	6,560

*Exchange rate for local currency counterpart is the official rate at the date the project agreement is signed.

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TABLE III

OUTPUTS

Component	STRENGTHENING		GROWTH		TOTAL	
	AID	GOH	AID	GOH	AID	GOH
Technical Assistance	1,248		2,696		3,944	
Project Management	453		536		989	
Commodities	467		50		517	
Training and Observational Tours	70		555		625	
Evaluation/Studies	100		200		300	
Audits	60		65		125	
Operational Support		6,560				6,560
Management Restructuring		0				0
Financial Restructuring		0				0
TOTAL	2,398	6,560	4,102		6,500	6,560

Notes:

1. Assumes 75% of Chief of Party devoted to Growth activities.
2. Assumes 23 person-months of short-term TA devoted to Growth activities.
3. Assumes 17 person-months of short-term TA devoted to Regulation activities.
4. Assumes 66% of O&M spent on growth activities.
5. Assumes Project Management time is divided as follows: Project Management 40% Strengthening, 60% Growth; Assistant Project Manager 75% Strengthening, 25% Growth; Secretarial support is evenly divided.
6. Local currency will be used to finance local training in credit mgt. administration, fertilizer use, coffee processing etc.

TABLE IV
(\$000s)

PP_BUDG Component	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
Long Term TA						
Chief of Party	200	200	200	200	200	1,000
Input Management	200	200	200	30	30	660
Coffee Specialist	100	100	100	30	30	360
Credit Specialist	30	30	30			90
Management Info. Specialist	40	40	40	40	40	200
Financial Management	75	75	75			225
Agribusiness Technicians (3)	60	60	60			180
Long-Term Subtotal	705	705	705	300	300	2,715
Short Term TA (40 pm)	150	150	150	75	5	530
PSA (8% of Commodities)	20	17	4	0	0	41
O&M (20%)	175	174	172	75	61	657
Subtotal TA Costs	1,050	1,047	1,030	450	366	3,944
Project Management						
Project Manager	180	180	180	180	69	789
Assist. Project Mgr	30	30	30	30	30	150
Secretary	10	10	10	10	10	50
Subtotal Project Management	220	220	220	220	109	989
Commodities						
Computer Hardware	80	49	23			152
Computer Software	70	63	12			145
Vehicles	85	85				170
Lab Equipment	20	20	10			50
Subtotal Commodities	255	217	45			517
Training and Observational Tours	45	110	175	170	125	625
Evaluation/Studies	25	25	125	25	100	300
Audits		50		75		125
TOTAL AID GRANT	1,595	1,669	1,595	940	700	6,500

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TABLE V

Fiscal Year	Obligation	Expenditure	Projected FYE Balance
1992	1,500	0	1,500
1993	1,600	0	3,100
1994	3,400	0	6,500
1995		0	6,500
1996		0	6,500
1997		0	6,500
TOTAL	6,500	0	

Assumes 25% of first project year expenditures incurred in FY 1992.

TABLE VI

TRAINING COSTS (000s)	Year 1		Year 2		Year 3		Year 4		Year 5		TOTAL	TOTAL
	Lps.	\$										
COFFEE MARKETS		15	100								100	15
COFFEE QUALITY STANDARDS				15	100						100	15
COFFEE QUALITY TRAINING PROGRAM FOR FARMERS	125		200		175						500	0
COFFEE PROCESSING METHODS FOR FOB PERSONNEL				15	100						100	15
TECHNICAL ASPECTS OF COFFEE TRADING					15	20	10	20	10	20	35	60
OBSERVATIONAL TRAVEL TO COSTA RICA COFFEE FEDERAL	0	15	0	15	0	15	0	15	0	15	45	75
INPUTS TRAINING PROGRAM	100		175		175						450	0
OBSERVATIONAL TRAVEL TO OTHER COUNTRIES (5)				50		50					0	100
RICE TRAINING PROGRAM			100		175		80				325	0
OBSERVATIONAL TRAVEL TO OTHER COUNTRIES (5)						50		80			0	100
MELONS TRAINING PROGRAM			100		150		50				300	0
OBSERVATIONAL TRAVEL TO OTHER COUNTRIES (5)								50		50	0	100
IDENTIFICATION AND EVALUATION OF NEW B.O.			100				100				200	0
FDF RESTRUCTURING SKILLS		15		15		15					0	45
OTHER TRAINING PROGRAMS					100		150		50		300	0
OBSERVATIONAL TRAVEL TO OTHER COUNTRIES (5)						25		35		40	0	100
TOTAL											2,455	625
TOTAL DOLLAR EQUIVALENT											455	625

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**ANNEX F
DETAILED COST ESTIMATES**

**TABLE VII
Methods of Financing and Implementation**

Activity/Commodity	Type of Contract	Responsible Contracting Party	Method of Payment	Estimated Amount (\$000e)
1. Technical Assistance	Institutional	USAID/Honduras	Direct Payment	\$3,944
2. Training and Observational Tours	Institutional	USAID/Honduras	Direct Payment	\$625
3. Commodity	Institutional	USAID/Honduras	Direct Payment	\$497
	Purchase Orders	USAID/Honduras	Direct Payment	\$20*
4. Audits	IQC or Direct	USAID/Honduras	Direct Payment	\$125
5. Evaluation/Studies	IQC	AID/W	Direct Payment	\$150
	Purchase Orders	USAID/Honduras	Direct Payment	\$150
6. Project Management	Personal Services	USAID/Honduras	Direct Payment	\$989
TOTAL				\$6,500

* Commodities line item includes purchase of commodities for Project Management team.

Technical Assistance, Training and Commodities will be procured under a single institutional contract.

IMPLEMENTATION PLAN AND PROCUREMENT PLAN**I. IMPLEMENTATION PLAN****A. Implementing Agencies****1. Financial Development Fund (FDF)**

The Financial Development Fund (FDF) will be one of three implementing agencies for the project. At the present time, the FDF is organizationally part of the credit union federation, FACACH, but operates independently from FACACH through a complete delegation of authority. The FDF provides policy and advisory services to qualified credit unions and agricultural service cooperatives. Its Board of Directors has two representatives from the Honduran Central Government and representatives from FACACH, UNIOCOOP and FECORAH. The FDF's General Manager serves as the Board's executive secretary. The FDF is staffed by a General Manager and a small group of technical and administrative support personnel. It has its own accounting system and its operations are audited annually by an internationally recognized independent auditing firm.

The FDF will manage the project's Strengthening component. It also will assist the project overcome implementation bottlenecks between and among participating project participants as well as among the government departments and agencies dealing with FDF. The FDF will devote most of its effort to financial analysis, assessment of managerial strengths and weaknesses, reorganization, installation of financial and accounting systems, negotiation of workout plans, and monitoring the terms and conditions of the stabilization agreements. The FDF will also coordinate with AIFLD and the Agribusiness Investment Unit to ensure that information relevant to both Strengthening and Growth activities is shared.

At the outset of the SFAD project, the resources the FDF received under the SFOS project will be transferred to a trust fund account in a competitively selected commercial bank. Counterpart funds contributed by the GOH during the life of project will be placed in this trust account, and used to finance the FDF's operational costs as well as the strengthening activities. Information on the FDF control system is available in unattached annexes to ANNEX J.

2. Agribusiness Investment Unit

The Agribusiness Investment Unit will be the center of the SFAD project's Growth activities. The project will develop 30 - 40 new business activities which, on average, is approximately one new activity within each participating organization over the life of the project. The Unit will encourage new business activities by providing close, intensive assistance during all phases of new business planning, analysis, design, development, and startup.

The Unit will be staffed by members of the technical assistance team, and will work directly with the cooperative federations and FOBs. The Chief of Party of the TA team will function as the head of the Unit and will be directly responsible for developing the new business activities. All unit team members will report to him.

The focal point for new business activity is at the level of the federations and cooperative FOBs. The project will not create a permanent independent capability to continue new business development efforts after the project ends. However, the federations and cooperative organizations are expected to continue these efforts beyond the project completion date. During the life of the project, the TA team will act as a catalyst and an agent to promote new business activity, as analyst and evaluator for screening new business proposals, and as a service center to package and develop new business financial proposals. These skills are expected to be transmitted to the cooperative organizations and federations during the life of the project.

3. American Institute for Free Labor Development (AIFLD)

The project's restructuring activities with the Regional Agricultural Cooperatives (CARs) of ANACH will be implemented through two channels, the FDF and the American Institute of Free Labor Development (AIFLD). The most advanced CARs will go through the FDF's management and financial restructuring process. Four of the ANACH CARs will meet the FDF's qualification criteria by project startup or within a few months of project startup. AIFLD will assist the less advanced CARs through training and strengthening activities to prepare them for qualification by the FDF. AIFLD's objective will be to qualify a least five more CARs for FDF assistance during the first three years of the project.

Using AIFLD as a preliminary assistance agency, takes advantage of the strong relationship between ANACH and AIFLD which dates back to ANACH's formative years in the early 1960s. During the last three years, AIFLD has worked with nine ANACH CARs. At this time, four are near to being qualified by the FDF for project participation. The remaining five are beginning the process of administrative change. The FDF will coordinate its assistance to qualified ANACH CARs with ANACH's Cooperative Department similar to the way it coordinates its current programs with the Cooperative Development Departments at AHPROCAFE and UNIOCOOP.

AIFLD's activities will consist of:

1. training CAR staff in planning and budgeting, accounting, administration and internal controls, and administration.
2. providing technical assistance to the CARs in planning and budgeting, accounting and administration.
3. preparing or updating the institutional analyses that define the business missions of those CARs that qualify for FDF assistance.
4. assisting the CARs to draft and present development plans to their Boards and memberships.

GOH counterpart funds will finance AIFLD's staff and office expenses. AIFLD's staff will consist of five Honduran professional employees. Its cooperative development activities with the ANACH CARs will be assumed by ANACH's Cooperative Development Division at the end of the project's third year. GOH counterpart

funds initially will finance the additional costs of this activity for the remaining two years of the project.

4. Government of Honduras

The Government of Honduras will participate in project implementation primarily through its representation on the FDF's Board of Directors by the Ministries of Economy and Finance. This low profile conforms to GOH policies and its expressed interest that the FDF eventually be converted into a private autonomous institution. The GOH will provide counterpart funding for the institutional support and financial stabilization components funded under the project.

5. USAID

Within the Mission, the project's implementing office will be the Office of Agriculture and Rural Development. The Mission will assign a USDH Project Officer to monitor the project under the close supervision of the Director and Deputy Director of the Office of Agriculture and Rural Development. The Project Officer will supervise a USPSC Project Manager who will be responsible for daily project management activities. The Project Manager will be assisted by a foreign service national (FSN) Assistant Project Manager and a FSN secretary.

Other USAID staff offices, including the Office of Development Finance, Controller's Office, the Contract Management Staff, Office of Economic and Program Analysis, and the Regional Legal Advisor will assist in project implementation and monitoring as needed.

B. Implementation Arrangements

AID will sign a bilateral project agreement with the GOH to obligate the dollar portion of the grant. This agreement will also specify the amount of counterpart funds required by the project. A separate local currency grant from the GOH will provide funding for AIFLD.

AID will procure the services of an institutional contractor who will be responsible for the provision of all commodities, training, and technical assistance to be financed by the project with AID grant resources. AID will directly procure those services and commodities related to project management, audit, and evaluation.

C. Procurement Plan

The authorized source/origin for procurement under the project is the United States and CACM. Procurement will follow the rules and guidelines of the relevant AID Handbooks, including Handbook 1B, Procurement Policies; Handbook 13, Grants; Handbook 15, Commodities; Handbook 10, Training; and Handbook 14, AID Acquisition Regulations and the Federal Acquisition Regulation as applicable. Local procurement will be carried out in accordance with the procedures of Handbook 1B. In addition, the project will comply with the Agency's Gray Amendment rules and procedures.

Performance Based Contracting: The contractor will be selected and hired under a performance based contract. Under this methodology, USAID will not specify the types of people needed to fulfill the terms of the contract, but rather specify the outputs expected from the contractor. The contractor will need to propose the appropriate team of persons and qualifications it believes are necessary to accomplish these tasks. To assist the contractor in developing its proposal, USAID will make available to the contractor the following information which was used in the design of the SFAD project.

- The SFAD Project Paper with the exception of detailed budget information.
- All analyses conducted for the SFAD Project Paper design including, technical analysis, economic and financial analyses, social soundness analysis, administrative analysis and the information system requirements analysis.
- Copies of six case studies conducted prior to the design which analyzed some of the fundamental issues facing FOBs. These include specific studies of CREHSUL and COHORSIL, CARCOMAL and CARCOL, MARCALA and DICOMCAFE, and UNIOCOOP and DICOMCAFE.
- The paper outlining the screening methodology expected to be followed by the technical assistance specialists in working with FOBs in the analysis of new business opportunities.
- The analysis of the impact of the SFOS project and the SFAD projects in generating benefits of production and foreign exchange.
- Draft of study of credit administration by FOBs.
- Draft of recent evaluation of the SFOS project activities with the FDF and the agricultural service cooperatives.
- Draft proposal for the evolution and restructuring of the FDF into an agricultural service cooperative support organization.
- Set of key documents for the restructuring of a sample agricultural cooperative including the diagnosis, business development plan, institutional support agreements, and financial stabilization agreement.

In addition to the above documents, the potential contractors will have access to USAID staff members who were involved in the design of the SFAD project paper during a planned pre-bid conference.

Contractors will be required to submit proposals based on their own analysis of the requirements to accomplish the objectives of the SFAD project. A USAID team composed of representatives from several offices and chaired by the Agriculture and Rural Development Office will review and evaluate the proposals received.

The terms of the contract will outline specifically what USAID expects the

contractor to achieve during the course of the contract. The contractor will be reimbursed periodically for expenses based on the level of effort and other costs related to achieving the expected outputs. During the course of the contract, USAID expects the contractor to be responsible for the following activities and achieving the following outputs:

- strengthening of 30 - 40 farmer-owned businesses in order that they may become more efficient and profitable business operations providing expanded services to their members/owners in a sustainable manner.

To achieve this, USAID expects the contractor to focus on the ag service cooperatives providing input supply, technical assistance and marketing and value added processing services to members/owners.

Indicators USAID will monitor to measure accomplishment of this activity will include: the coffee discount applied to members/owners coffee in the international markets (USAID expects it to decline from \$8 - \$10 per cwt today to \$4 - \$5 per cwt by 1996), input distribution costs, and processing costs for most products handled by the FOBs.

- increased profitability and capitalization of FOBs in order that they may be strong, viable and sustainable business organizations.

This will be measured based on: 1) profitability, with the expectation that of the participating FOBs 90% will be operating at a profit by 1996; 2) volume of business, with the expectation that the participating FOBs will have increased their handling, processing and sales of members/owners' selected products (coffee, melons, rice and corn) by at least 50%; and 3) capitalization by measuring the level of member/owner equity and reserves in the participating FOBs with the expectation that these equal or exceed 30% of total assets.

- 30 - 40 new agribusiness investments will be expected to be undertaken by participating FOBs.

It is anticipated that the investments will be in such areas as input supply, processing, packaging or marketing of a new product or an existing product produced by members/owners of FOBs. To achieve this, the contractor will need to assist participating FOBs that have graduated from the FDF's strengthening program to apply the opportunity screening methodology to their current and potential business operations.

Following the opportunity screening activity, USAID expects that the contractor will assist the participating FOBs to conduct approximately 50 feasibility studies of potential new business activities which will result in 30 - 40 loans being made by

commercial banks and other financial institutions to finance new business activities.

Finally, in terms of measuring the success of these new businesses, USAID expects that they yield at least 15% return on investment (in dollar terms).

the improved operating profit of the FOB's federations.

Strengthened FOBs will need strong federations to continue to provide assistance and economies of scale if they are to continue competing and operating profitably in an ever expanding economy. USAID will measure success of this objective by monitoring the profitability of the FOB's federations in terms of return on equity investments. This should equal or exceed 35% by the end of the project.

In order to accomplish the above tasks as outlined in the project paper, the contractor will be responsible for the following specific activities:

- providing technical assistance to the FDF in its ongoing activities of management and financial restructuring of FOBs and in further developing the FDF's internal structure in light of its expected legal chartering.
- providing all training needed to realize the objectives of the project.
- establishing the agribusiness investment unit and staffing it with qualified people that can assist the FOBs to analyze new business opportunities, conduct feasibility analyses and assist the participating FOBs to prepare and present proposals to banks for financing of new business activities.
- organizing and implementing necessary international travel to acquaint members of participating FOBs with new markets, new processes, possible new investment opportunities, etc.
- procuring all commodities (largely equipment) which will be required for implementing the project.
- conducting studies as required during the implementation of the project to 1) establish a baseline of information for measuring project progress and accomplishments, 2) periodic updates of project progress and accomplishment in relation to the baseline, 3) specific studies related to women's participation in project related activities, and 4) feasibility studies of new investment opportunities for FOBs.
- refining the FDF's information system so that it provides the necessary information to measure accomplishment of project objectives.

1. Technical Services, Training and Observational Tours

As noted in Section VII, PROJECT INPUTS, AID will execute a direct contract for technical services. The contract shall be a performance based completion contract. Procurement will begin shortly after the signing of the Project Grant Agreement, including refinement of the scope of work and advertising in the Commerce Business Daily. In addition to providing direct technical assistance, the contractor shall conduct workshops, seminars and agribusiness studies, as well as coordinate and manage observational tours related to the training program. As noted below, the contractor also shall procure most of the commodities anticipated in the project.

USAID will expect the contractor to utilize Honduran personnel, where appropriate. The contractor will be permitted to subcontract with local firms or individuals for assistance with specific feasibility studies. USAID will encourage the technical assistance contractor to increasing use local personnel over time in order to complete the transfer of skill and knowledge during the life of the project.

2. Commodities

The contractor will procure a limited number of commodities under the contract. USAID may procure some commodities directly through a Project Implementation Orders for Commodities prior to the execution of the technical assistance contract. The project will finance the purchase of computer hardware and software, 10 vehicles for the FDF and the contractor's use, and radios for the network serving the FOBs and their federations.

3. Project Management and Administration

AID will carry out a direct competitive contracting process to procure the services of a PSC Project Manager, an Assistant Project Manager and a secretary.

4. Evaluation and Audit

AID will contract directly with institutions or individuals for requisite audits and evaluations during the life of the project.

5. Buy America

The project has been designed in accordance with the Agency's Buy America guidance, State 410442 (December 6, 1990). U.S. procurement has been required whenever practicable. Local procurement for the project is planned only for those goods or services for which the Buy America guidance provides a specific exemption, project objectives will be directly served by utilizing local procurement, and substantial cost savings will result from using local procurement.

None of the currently planned local procurement requires a waiver under the Buy America guidance. If, however, during implementation of the project, a

transaction is proposed that requires a waiver under the Buy America guidance, such waiver will be obtained before proceeding with the transaction.

In those transactions for which local procurement is authorized, CACM will be utilized in accordance with Handbook 3, Appendix 5D, and the LAC Central American Strategy to encourage effective regional cooperation. It is anticipated that most local procurement will take place in Honduras, but procurement from CACM will take place as necessary to further project objectives.

Table VIII presents the procurement plan in chart format and indicates the Buy America implications of each class of transactions of commodities, services, or training financed by the project. All transactions will require U.S. source, origin, and nationality except for the following, which are permissible under the cited sections of the Buy America guidance:

- The assistant project manager will be a personal services contractor with CACM nationality. The estimated LOP cost of the position is \$150,000. Section 9 of the Buy America guidance provides that the guidance does not apply to professional services contracts under \$250,000.

- The project secretary will be a personal services contractor with CACM nationality. The estimated LOP cost of the position is \$50,000. Section 9 of the Buy America guidance provides that the guidance does not apply to professional services contracts under \$250,000.

- The project authorizes a total of \$625,000 for training and observational tours. Section 19 of the Buy America guidance provides that the source policy on participant training set forth in Handbook 10 remains unchanged by the Buy America guidance. Handbook 10 authorizes third country training under appropriate circumstances. An estimated \$240,000 of the total amount planned for training and observational tours will be used for third country training.

- The project authorizes \$75,000 for studies to be obtained through Purchase Orders with U.S. or CACM firms. Section 9 of the Buy America Guidance provides that the guidance does not apply to professional services contracts under \$250,000.

- The project authorizes \$125,000 for audits to be obtained through an IQC with a U.S. or CACM audit firm. At the time of contracting, every preference will be given to the use of a U.S. firm. The IQCs are under the direction of the RIG, however, and it is highly likely that the only locally appropriate and cost-effective IQCs will be with local firms. Section 9 of the Buy America guidance provides that the guidance does not apply to professional services contracts under \$250,000.

PROCUREMENT PLAN

Commodity/Service	Description	Estimated Cost (\$000)	Source	Origin	Type of Procurement	First Delivery Date (Project Month)	Lead Time (Months)	Purchase Agent	Waiver/Approval Required	Buy America Implications
Technical/Procurement Assistance										
Technical Assistance	Institutional Contractor	3,944	000	000	Competitive	6.0	6.0	USAID/H	None	None
Commodity Procurement	Institutional Contractor	517	000	000	Competitive			IC	None	None
Project Management										
Project Manager	Personal Services Contractor	799	000	000	Competitive	6.0	6.0	USAID/H	None	None
Assistant Project Manager	Personal Services Contractor	190	CACM	CACM	Competitive	6.0	6.0	USAID/H	None	See Note 2
Project Secretary	Personal Services Contractor	80	CACM	CACM	Competitive	3.0	3.0	USAID/H	None	See Note 2
Training (See Note 3)	Various	500	000/B41	000/B41	Competitive	Various	Various	IC	None	HB 10 Rules Apply
Observational Tours (See Note 3)	Various	125	000/B41	000/B41	N/A	Various	Various	IC	None	HB 10 Rules Apply
Evaluations/Studies/Audits										
Evaluations	IQC Contractor	225	000	000	Competitive	Various	Various	AID/W	None	None
Studies (See Note 3)	Purchase Orders	75	000/CACM	000/CACM	Competitive	Various	Various	USAID/H	None	See Note 2
Audits	IQC Contractor	125	000/CACM	000/CACM	Competitive	Various	Various	USAID/H	None	See Note 2
Total		6,800								
Total U.S. Procurement		5,680								
Total Non U.S. Procurement (See Note 3)		640								

Notes:

- All travel will use U.S. carriers when feasible.
- Professional services procured locally valued less than \$250,000 exempt from Buy America Provisions.
- Of the \$640,000 estimated total in non-US procurement, approximately \$400,000 will be for local procurement for services in project management, studies and audit costs, and \$240,000 will be for third country training and observational tours.

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D. Implementation Schedule

The following implementation schedule indicates targeted dates for the project's first year actions:

<u>ACTION</u>	<u>DATE</u>	<u>ACTION BODY</u>
1. <u>Project Documentation</u>		
Project Authorization	03/92	USAID/GOH
Grant Agreement Signed	04/92	USAID/GOH
Initial Conditions Met	06/92	GOH
2. <u>Contracting Actions</u>		
a. Potential Local, Third Country, and American Personnel Identified		USAID/GOH
b. PIO/T Signed		USAID/GOH
c. Proposals Reviewed	06/92	USAID
d. Contract Executed	07/92	USAID
e. Contractor in Place	09/92	USAID/GOH
f. Commodity Procurement Initiated	10/92	USAID/GOH
3. <u>Information System</u>		
a. Baseline system updated	09/92	USAID/DFD

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MONITORING AND EVALUATION SYSTEM AND PLANS**A. Information System****1. Existing Information System**

The information system administered by the FDF in the implementation of the SFOS project focuses on institutional strengthening indicators for three categories of cooperative business: credit unions, ag cooperatives with some coffee processing services, and other ag cooperatives. Most of the data elements are common to all three systems. The credit union system has a slightly larger set of data elements from the financial statements, while the coffee cooperative system has some data elements related to the volume and efficiency of coffee processing services.

2. Information requirements of the SFAD project

The purpose of SFAD project is broader than the purpose of the SFOS project. The purpose of the SFOS project is to create a viable system for the provision of productive inputs to farmers, thus its output indicators are institutionally oriented. The purpose of the SFAD project is to assist FOBs to increase:

- production
- value added from processing, and
- exports of FOBs

The SFAD project information system will measure the status of those outputs and indicators.

However, because the FOBs need to be strengthened prior to expanding operations, the SFAD project information system will continue to measure the financial indicators used for measuring the effects of the institutional strengthening process.

3. The SFAD project system and its users

The information system for the SFAD project will use the following principles.

- Keep it simple with a minimum of data elements;
- Use the existing FDF system as the point of departure, identifying a single set of data elements for all types of FOBs;
- Classify data elements by frequency of collection;
- Keep it accurate, by involving users of the information such as FDF, FOB, AIFLD, and institutional contractor personnel in review and validation of the data.

The users of the system will include the GOH, AID, FDF, AIFLD, the institutional contractor and the FOBs. The system will record for the FDF the progress in

meeting the goals and objectives of the project. The institutional strengthening data base will make available to project management background information on the operations and financial status of each participating FOB, including federations. FOB management will also find this database useful.

Although the FDF will implement only the project's strengthening, the project's information system will be housed at the FDF. The FDF's experience and the work done to date on the information system make the FDF the logical location for the data base. The institutional contractor shall be responsible for providing information on the growth component to the FDF to be included in the information system. AIFLD will be responsible for providing data on the strengthening activities it will carry out. Additional information on the FDF information system is available in the unattached case studies which are an annex to the project paper.

a. Measurement of output indicators

The baseline information of strengthening related activities of the SFAD project will establish the initial state of the output indicators for those agricultural service cooperatives which have been qualified by the FDF for participation. The amount of production, value-added processing, employment and exports generated will be established by FOB for each of the crops of significance (coffee, rice, melons, corn, beans, sesame, and others). For individual FOBs the following data will be collected:

- amount of investment (equity or borrowed capital) in new or expanded facilities,
- sales by FOBs to domestic and export markets,
- direct employment in FOBs from current investments and new investments,
- indirect employment (i.e. farm employment) disaggregated by gender,
- coffee export price; coffee discounts,
- amount and percentage of input distribution costs,
- amount and percentage of processing costs for various products,
- amount and percentage of marketing costs for various products,

b. Measurement of FOB performance

The FDF's current information system will be used to establish the initial status of ten key financial indicators related to strengthening of the FOBs as grouped in these five categories:

- Liquidity
- Solvency
- Operating and Financial Efficiency
- Profitability
- Repayment Capacity

As the SFAD project is implemented, the baseline itself will expand, and will be used to provide information for both strengthening and growth activities. That is, when the FDF qualifies new FOBs for the strengthening process, the baseline will be expanded to include the output and financial indicators as of

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qualification, adjusting book values in their financial statement to real values.

To analyze gender related issues of the project, the baseline study will select a stratified sample of 50 to 100 farm families, establishing the amount of farm production they have at the outset of the project and the employment effects of the FOBs' production, processing, and marketing activities on the families as disaggregated by gender. The baseline study will also specify gender disaggregated data elements for the employment estimates to be made by the Agribusiness Investment Unit in completing the 30 - 40 feasibility studies related to the growth activity. The institutional contractor will be responsible for ensuring that analysis of gender specific effects on or of proposed activities are conducted.

4. Reports Produced by the Information System

The structure of the FDF's information system will permit various types of reports to be issued.

a. **Descriptive Report** - This report, updated infrequently, will include background information on name, location, leadership and management, date of incorporation, principal officers, and historical trends of membership (gender disaggregated), sales, assets, and net worth of the participant FOBs.

b. **Business Summary Report by FOB** - This report, updated quarterly, will include five years of data on each participating FOB on:

- membership, gender disaggregated
- employees
- branches
- portfolio
- sales, disaggregated by principal lines of business activity
- exports, disaggregated by product
- assets
- owner equity and reserves
- net profit
- and the trend of the key financial indicators related to strengthening.

FOBs should provide the information for the quarterly update of the data base to produce the Business Summary Report. This information should enable project management officials to verify if the projected indicators of impact (EOPS and outputs) are realistic or should be adjusted.

c. **FDF Financial Summary Report** - This report will be updated quarterly detailing

- the number and type of strengthening agreement,
- approvals, disbursements and balances for management restructuring agreements,
- financial restructuring agreements, and loan agreements.

Financial statements will be produced at the end of this report. The data presented will include the current year-to-date data and up to five years of

historical data. This information should be available to the user in short-summary form of only the major account totals. The report should be produced monthly with current data.

5. Computer Requirements

Equipment requirements for the information system will vary. As a minimum, the system will include a personal computer setup for the FOBs and the second-level organization, including a PC, printer, voltage stabilizer, and supporting software. The financial plan section contains a listing of the FOBs and federations that are expected to receive this equipment.

B. Monitoring Plan and System

1. Nature of the Monitoring System

Monitoring progress toward objectives and tracking impact of project activities will be the responsibility of AID, the FDF, AIFLD, and the TA contractor. The GOH will also have a role through its representation on the FDF and trust fund boards. Monitoring will be done continuously throughout the project, both formally and informally, through periodic meetings and reports. The information system described above will provide the basis for the GOH and AID for monitoring report on progress toward objectives and whether impact is being achieved through the indicators cited in the Logframe. Monitoring activities will also address gender related actions. This monitoring will take place on a quarterly or semi-annual basis.

The importance of different types of information will vary according to the monitoring needs of the user. For example, FOBs and their federations may be more concerned with sales, costs, profits or losses and other measures of production, processing, and marketing success on a daily, weekly, and monthly basis. The FDF will be most interested in monitoring the financial indicators which reflect progress in the strengthening of the FOBs. Project management will be interested in tracking overall effectiveness, progress toward specific benchmarks, expenditures, and identification of potential problem areas. Project management will also be interested in the activities of the Agribusiness Investment Unit. The effectiveness of this unit will be monitored by tracking progress in the following types of activities:

- number of investment opportunities reviewed and screened,
- number of opportunities completing pre-feasibility stage,
- number of opportunities completing feasibility study with return on investment and qualitative assessment,
- number of opportunities presented to banks for financing,
- number of loan applications approved,
- number of investments operational, and
- how gender considerations impact the project.

2. Reports Produced by the Monitoring System

Various reports will be used by AID, FDF, the TA team and the FOBs to track

project progress. These reports will also provide gender disaggregated information where appropriate.

- a. **Contract status reports from the TA contractor to AID** - These are usually monthly for financial data and quarterly or semi-annually for project status reports. The contractor will report on activities of the Agribusiness Investment Unit, as well as other work as called for in the items of reference for the contract.
- b. **Annual Plans and Project reports from the FDF to GOH and AID** - The FDF will work on the basis of an annual plan covering management and financial restructuring actions with the FOBs as well as other responsibilities of the FDF. The FDF will report quarterly on the progress achieving the targets set in the annual plan.
- c. **Disbursement reports from the FDF to GOH and AID** - These reports should be monthly and report on the status of disbursements and collections under the financial restructuring program and on expenditures under the management restructuring grants.
- d. **Disbursement Reports** - These monthly reports indicate movement of funds under the trust agreement.
- e. **Progress and Disbursement reports from AIFLD to GOH and AID** - These reports should be on a monthly basis and provide project management an update on:
- strengthening activities with the ANACH affiliated FOBs and ANACH
 - disbursements to date
 - critical issues in implementation
 - major activities planned for the upcoming period
- f. **Semi-Annual Report from AID/H to AID/Washington** - The Mission of AID in Honduras will report to Washington on a semi-annual basis, indicating progress towards objectives in accordance to guidelines issued by the LAC bureau.
- g. **FDF Monitoring of FOB performance** - The primary responsibilities of the FDF are to carry out the management and financial restructuring of FOBs. Although monitoring and evaluation of performance in part is subjective, the FDF "project managers" will adopt a quasi-objective evaluation system for communicating the current impressions of the Project Manager about the FOB to the FDF management team. A system of grading performance is suggested based on an arbitrary grading scale of 0 to 3 for certain specific concepts and performance:

Grades:

- 0 Does not have
- 1 Deficient
- 2 Acceptable
- 3 Good

Concepts:

- Accounting system has been established and set up
- Accounting system is up to date
- External audit (grade based on auditor's opinion)
- Achievement of goals per the FDF stabilization agreement
- Use of budget in making management decisions

Performance of:

- Board
- Manager
- Key Staff
- Board Committees

C. Evaluation Plan

The primary purpose of evaluation activities within the context of project implementation is to inform AID and Honduran organizations about the performance and progress of the particular project. This management focus makes monitoring and evaluation an integral part of the process of planning and implementation, and afford the basis for re-design or mid-course correction. Some of the information requirements of various users are complementary and in certain cases overlap. However, information needs vary greatly across various levels of management officials - both within AID and the Honduran Government - as each level of management information requires certain information peculiar to its own responsibilities and operations. Consequently, different levels of management pose somewhat different questions for any evaluation scheme to address.

Evaluations will be expected to show progress towards objectives and to provide timely information for project management and control purposes. The project will also be evaluated on a regular basis to determine degree to which certain procedures and processes can influence policy as the various component managers focus on production, employment and the production of foreign exchange and gender implications.

Several types of evaluations will be conducted during the course of the project, including:

- Midterm and final evaluations. These will be conducted by a team of evaluation specialists, contracted by AID for an objective review of various factors such as: progress towards objectives, effectiveness of the TA team, needed mid-course corrections, measurable impact, and validity of assumptions. The evaluators will also review project design and recommend changes that might be important to achieving project objectives. As part of the midterm and final evaluations, the sample of index families studies in the baseline will be revisited to assess the effect on them due to the labor demand of FOBs which has been generated by the strengthening and growth activities of the project. The assessment will consider gender issues and the seasonality of labor demand.

- Specific impact studies. Annual impact studies will review the impact of the project on production, value-added processing, foreign exchange, and employment at that point in time. It may be possible for some of these

studies to be conducted by the FDF, supported by Honduran consultants, using the impact methodology developed in the SFOS project. Another impact study might be undertaken, for example, to examine the impact and benefits accruing to the participants by a particular agribusiness investment.

In 1994, a review will be made of the accuracy of the estimates of employment impact of the agribusiness investments made as part of the Growth activity. Emphasis will be placed on gender specific effects, and gender disaggregated data, in light of the findings and recommendations of the social analysis.

1. Evaluation Schedule

AID will conduct evaluations according to the following schedule:

Type	Date
- Mid-term	9/94
- Impact studies	Periodic
- Final	9/97

2. Terms of Reference

a. Midterm

- identify solutions to major or persistent problems which are affecting implementation;
- review actual versus planned progress towards objectives;
- reassess relevance of project objectives and validity of assumptions;
- identify means to improve efficiency and lower costs of project activities;
- document reasons for successes or failures and recommend mid-course corrections;

b. Final

- summarize project objectives and background;
- assess whether project met objectives, including whether was consistent with country strategies;
- review whether mid-term recommendations were implemented;
- determine overall impact in terms of increases in production, value-added processing, employment and foreign exchange earnings; and
- draw conclusions on lessons learned and make recommendations for follow-on projects in this field as may be appropriate in Honduras or other countries.

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CONDITIONS AND COVENANTS

Conditions and Covenants with the Government of Honduras for the FAST project will be minimal. This focus of this project is to promote increased production, employment and foreign exchange earnings. The project will do this through a hands-on approach to implementation and will work directly with local organizations. Each specific implementing agreement with a FOB will have stringent conditionality which will be monitored and enforced over a multi-year period. However, at the overall project level with the GOH conditionality will be limited.

In addition to the Conditions Precedent normally contained in the Project Agreement, the following covenants will be included:

1. By September 30, 1992, the FDF will have established the project information system and will be producing reports on approvals, disbursements, and balances, detailed by FOB.
2. By December 31, 1992 the GOH will take the legal steps to separate the FDF from FACACH.
3. The GOH will remove the Model Cooperative Trust Fund from BANADESA and place it with a private bank as custodian with FDF as the trustee.
4. The GOH will extend the condition agreed to under the Small Farmer Organization Strengthening project which authorizes the sale of debts of farmer-owned businesses (FOBs) by public institutions at a discount as part of the restructuring activity. The GOH will agree to:
 - a. Authorize the representatives of the public sector institutions (i.e., BANADESA, IHDECOOP, INA, etc.) to agree to negotiate with the FDF, the sale of outstanding obligations of participating organizations in the project at below the book value of those receivables, where the following conditions prevail:
 - i. The delinquent loan receivable can be demonstrated to have been caused by acts of nature, insufficient production resulting from inappropriate technology, unstable markets or other factors outside the control of the FOB's current directors, management or membership. A delinquent receivable shall not have been caused by misuse of funds by current management or unjustified member delinquency;
 - ii. The FOB's Board of Directors has approved implementation of management reforms recommended by the FDF; and,
 - iii. An economic feasibility study has demonstrated that the FOB can become a significant provider of productive services to its members and become financially sound, if the organization has been restructured.

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- b. The trust account described in number 3. above will become the depository of all the resources received by BANADESA from the FDF as a result of debt retirement of the Agrarian Reform Trust Fund's delinquent portfolio. The terms and conditions for all new lending from this account and for intermediary access will be clearly defined in the Trust Account Contract to be signed between the Bank, the FDF, and the Ministry of Finance.
5. Prior to the inclusion of FOBs from the reform sector or other sectors in project activities carried out by the FDF or the Agribusiness Investment Unit, FDF must carry out a analysis of the relative costs and benefits of the proposed activities with the FOB. In addition, the analysis must evaluate the FOB's orientation as a business entity and its potential for sustainable and viable operations.
6. The GOH will develop a program which establishes a viable, self-sufficient, fee supported audit unit in IHDECOOP staffed by competitively paid professionals.
7. The Cooperating Country shall make every effort to ensure that counterpart funds are available in a timely and satisfactory manner. Likewise, the cooperating country shall provide AID with quarterly reports on the provision of counterpart contributions. These reports shall be provided no later than 30 days after the end of the quarter. Should the cooperating country fail to make available amounts designated in the budget or fail to make those amounts available in a timely and satisfactory manner as determined by AID, AID may suspend assistance to one or more project activities until such time that AID shall determine that the assistance may be continued or that one or more of the project activities be terminated.
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SUMMARY OF ANALYSES**A. Social Soundness Analysis****1. Socio-Cultural Context**

Honduras is one of the poorest countries in Central America. Its 1988 population of 4.4 million is growing at 3.1% annually. Among rural workers 83% earn less than 200 lempiras monthly which represents \$37 at the current exchange rate. Hondurans presently have a lower nutritional level than in 1980.

Absolute poverty afflicts above all the rural people of Honduras. Farmers constitute the poorest social strata of society. At the same time poverty comes in degrees. This differences are closely related to access to land. The latest National Agricultural Survey (1989) shows there are 325,750 farms covering 5.2 million hectares. The "independent" sector has 288,720 farms with 4,650,000 hectares, while the "reformed" sector encompasses 37,000 farms and 551,000 hectares. It should be mentioned that the agrarian reform process has benefitted 64,000 families, representing about 17% of the rural population.

The overwhelming number of farms 231,000 (or 70%) have less than 10 manzanas of land. Average small farm size has decreased from 3 hectares to 2 hectares since 1965. Over 55% of the economically active rural population owns less than 5 hectares of land. These producers primarily grow basic grain crops for subsistence and engage in seasonal labor. Work out of the small family holding represents 52% of their income. There is a smaller strata of middle income peasants engaged in subsistence and commercial farming, but they as a rule do not engage in wage labor. The apex of the social pyramid consists of barely 1.7% of the rural population which can be classified as rich. They own the large farms which comprise most of the best land, the coffee, sugar cane and banana plantations, and the cattle haciendas. Besides the land holders of different farm sizes there are an estimated 175,000 landless families in the rural areas. There is also a large sector or rural wage laborers working in the banana plantations, large coffee farms and cattle haciendas. They are mostly concentrated on the North, the Atlantic and Central regions.

2. Beneficiaries**a. Profile of beneficiaries**

A recent survey of a sample of small farmers in 15 agricultural cooperatives (WOCU, 1988), provides relevant facts on the conditions of their membership. From this baseline study we have extracted the data for UNIOCOOP and ANACH farmers cooperatives.

In general the members interviewed were household heads representing a mature, stable population. Of these 92% are married and had an average age of 43 years. The average size of households is high, and usually consist of seven persons. Cooperative members have a higher educational level than the rest of the rural

population. Rural illiteracy is estimated nationally at 54%, but it is only 28% in the cooperatives. In most cooperatives, farmers have substantially improved their housing conditions. This has been mostly done by investing their own surpluses from agricultural activities.

The table which follows compares basic socio-economic between ANACH and UNIOCOOP farmers.

Table 1. Socio-economic Profile of ANACH and UNIOCOOP cooperative Members, 1988.

Social Characteristics	UNIOCOOP	ANACH
Average No. persons/household	6.3	6.7
Average Age household head	40.5	44
Literacy rate -%	80	60
Total Average Income(Lps.)	6,946	2,561
Percent in Possession of:		
Radio	83	65
Sewing machine	57	14
Refrigerator	34	4.7
T.V.	34	17
Electricity	39	21
Indoor water	90	51

b. Role of institutions

According to the latest national cooperative survey (IHDECOOP, 1991) there are in Honduras 766 active cooperatives encompassing a total membership of 124,000. In turn, 50% of these cooperatives (388) are agricultural, and have 19,000 members, or 15% of the total cooperative membership in Honduras. Since the average rural household has 6 members it can be estimated that agricultural cooperatives directly benefit 114,000 rural people. This is an important number, but still a fraction of the total rural population.

Most agricultural cooperatives belong to the "reformed sector" particularly to ANACH and FECORAH. However, these groups are also the weakest in terms of organizational structure, management capacity and capitalization. These underlying deficiencies led the SFOS project to treat these groups in a different manner and to offer special assistance to carry out basic strengthening operations.

Specific profiles of the participating organizations are presented in the Project Description section and the Technical Analysis.

c. Role of Women in Development

The role of women in rural sectors is concentrated in the home. Only rarely are

women full participants in cooperatives in the rural areas. Despite this limited formal participation, women become de facto heads in many rural families when men leave to take seasonal employment elsewhere.

A recent survey showed that women in cooperatives work on the average of 12 to 15 hours daily. In addition to maintenance of the household, they participate intensively in other productive activities to generate additional household income. Women also participate in different agricultural activities which vary according to the region and the crop type.

In coffee growing areas most harvesting is done by women and children. Their work is preferred over that performed by men because they are quicker and are paid less. They are paid at three lempiras for a "lata" or bucketful of ripe coffee beans. Women also work in the coffee tree nurseries. In the cotton-growing areas women work in all the different cycles of the crop. They also work in the banana and the vegetable packing plants. Many processing jobs are also sources of employment for women. At DICOMCAFE in San Pedro Sula, the higher value hand sorting is done only by women.

Rural women interviewed during this study considered that they did not participate more in cooperative affairs because they had too many household chores. Some mentioned the deeply rooted rural custom that rural girls since early childhood are taught to be extremely shy, to be afraid of social intercourse. In some regions girls are supposed to hide when strangers visit the homes. Rural women complained that all cooperative extension agents are male.

It is anticipated that the screening process for agribusiness opportunities will involve a careful examination of the roles of members of the family in determining which investments FOBs should pursue. Current division of labor, available time, and other factors will be reviewed in light of their impact on potential success of proposed activities.

3. Participation

The FDF has participated in the development of Strengthening activities, and FOBs have participated in the development of ideas for both Strengthening and Growth activities. Continued active participation during the life of the project is essential. The management and financial changes which are required for project objectives to be achieved mandate that full participation by members, managers and boards of cooperatives be maintained. In addition, in the project, increased involvement by federations and augmenting the ties between federations and affiliated farmer owned businesses will be an important activity.

The GOH has participated in the design of the project, albeit in a limited manner. GOH representation on the board of directors of the FDF keeps it apprised of major activities. Furthermore, the GOH has indicated that this project should be maintained as a private sector activity to the extent possible.

4. Socio-Cultural Feasibility

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ANNEX J
PROJECT ANALYSES

As noted above and in the Project Description section, the project will be implemented through the FDF, an Agribusiness Investment Unit, and through a separate cooperative agreement with AIFLD. This implementation strategy was chosen to alleviate some of the potential socio-cultural pitfalls that could occur with implementation only through the FDF.

Because the FDF has a primary role as an "enforcer", it would be difficult for it to effectively maintain discipline of participating FOBs and to carry out aggressive business development activities. There is a mix of perceptions about the FDF and its appropriate role. While some federations and cooperatives describe the FDF as being too large and powerful, there is a general consensus that Project Managers are an essential tool in the business development and restructuring process.

However, in order for the project to be successful, federation management and staff must assume a more proactive role in the development of their affiliated members. The structure of the technical assistance team is designed to allow the flexibility to provide expert advice without overshadowing the role of the federation. The three local Agribusiness Development Advisors will play a key role in transferring skills and designing new activities. It is anticipated that these individuals will play a parallel role to the Project Managers on the restructuring side.

The socio-cultural feasibility of each new business activity will be analyzed as part of the agribusiness screening process. Potential labor pools and acceptance of family members engaged in wage activities will be evaluated in this process.

5. Impact

The project design anticipates that there will be substantial net benefits to the Honduran economy in terms of foreign exchange, employment opportunities and production gains. A separate impact study has been carried out to assess the outputs expected from the project. Social impacts and spread effects are varied.

The improvement of the operations of FOBs will result in greater producer income leading to improved nutrition. In addition, the FOBs, once restructured will be viable business entities that will continue operations after the PACD. Agribusiness development will also continue as FOBs internalize the business opportunity screening process and begin to choose investment alternatives that assure continued profitable operations.

Evidence under the current SFOS project with regard to spread effects and sustainability is mixed. Cooperative organizations outside the current participation group have asked for project assistance - including the more difficult elements of management and financial change. These unsolicited requests indicate that there is a perception that the process of restructuring is worthwhile and that cooperatives are willing to undergo the necessary changes. Other positive aspects of the spread effects of the project result from the training activities which have reached more than 2000 small farmers, primarily in the coffee sector. Experience under this and other projects reveals that the technology learned through training will be transferred to a wider audience

through practical application. At the same time, it is too early to ascertain if permanent changes will occur in the participating cooperatives of the SFOS project. This is an important issue in evaluating the anticipated long term benefits against the immediate costs of restructuring and growth.

B. Institutional Analysis

This section will summarize the FDF and AIFLD, the primary implementing institutions for the proposed project. This analysis looks at their strengths and weaknesses as related to their involvement in SFAD.

1. FDF

a. History

The SFOS project has been implemented by the Financial Development Fund (FDF). Due to the Honduran government's resistance at that time to creating a new, independent institution for implementing the SFOS Project the FDF was placed inside an already existing institution, and one of the project beneficiaries -- FACACH. The FDF was provided with the team of 5 long-term technical advisors through a contract between USAID/H and the World Council Credit Unions (WOCCU).

FDF does not have a separate legal status. It is organizationally part of FACACH. Despite this cumbersome structure, the FDF is charged with implementing all three components of the project for both Credit Unions and Agricultural Service Cooperatives.

b. Findings and Conclusions

Since January of 1987, the FDF has carried out its organizational activities and moved forward with project implementation as a subsidiary of FACACH. Several independent reviews have recommended that FDF be separated from FACACH for the following reasons:

- FACACH's weak financial position might place the FDF's assets in jeopardy.
- FDF is building credibility with the cooperatives. By leaving FDF in the financially weak FACACH, the FDF clients may lose confidence.
- FACACH serves the credit union sector, whereas FDF has served both CUs and agricultural cooperatives. These are very different types of organizations. Financial services to these sectors should be provided by different organizations.

c. Recommendations

After consideration of many alternatives, the most appropriate course of action is to further separate FDF from FACACH. One intermediate solution would be to constitute a trust with a commercial bank. Further, this trust should be established to serve exclusively the agricultural cooperatives and other farmer owned businesses. Credit unions should be served temporarily by the existing

mechanisms and later by FACACH as it completes its restructuring plan. In the long run, FDF should be established as an independent entity, owned and managed by the FOBs it serves.

d. **Proposed staffing**

When FDF divests itself of responsibilities associated with the credit union sector, it should be able to reduce its staff and expenses accordingly. Its future role will be limited to agricultural cooperatives, farmer owned businesses and farmer associations. Further, it will focus on the financial dimensions of these businesses, working with and through the FOBs parent federations to advise on managerial strengthening.

For the SFAD project, the following staff configuration is recommended:

- General manager
- Financial restructuring manager
- Financial analyst
- Controller/administrative manager
- Project managers (5 or 6)
- Management information systems specialist
- Secretarial and clerical staff.

2. **AIFLD**

a. **History**

The American Institute of Free Labor Development (AIFLD) has been in Honduras over 30 years. This institution was instrumental in establishing labor groups and campesino organizations in Honduras in the 1950s and 1960s. USAID Honduras has worked with AIFLD in implementing programs with ANACH since 1982 when a \$300,000 OPG was approved. AIFLD has worked directly with ANACH and its regional cooperatives (CARs) in an effort complementary to the SFOS project since 1988. The purpose of the \$3,500,000 grant awarded in 1988 was to prepare nine CARs for entrance into the SFOS project. This effort has had success with two cooperatives and will demonstrate progress with two others in the next twelve months.

One reason for this implementation strategy was that ANACH and its cooperatives are notably weaker than the independent cooperatives of UNIOCOOP, and it was felt that special work with this group would be necessary. In addition, the political nature of the ANACH group made it a candidate that could best be handled by AIFLD or another group with similar political experience.

b. **Findings and Conclusions**

AIFLD has put in place a project management and development team which has demonstrated the ability to monitor and implement the program. In addition, AIFLD has been able to bring about substantial changes in the focus of ANACH leadership. The gradual change from a trade union orientation to a business

management focus on the part of ANACH is due in large part to AIFLD's influence. A separate review of AIFLD's control system has been carried out, and recommendations for changes will be addressed prior to the disbursement of funds to AIFLD.

c. Recommendations

To date, AIFLD has proven its track record in bringing about change in agrarian reform groups. It is recommended that AIFLD continue to be the project's primary liaison with the ANACH group of cooperatives for preliminary strengthening activities, and that work with other agrarian reform groups be channelled through AIFLD to the extent possible. The change in the SFAD project focus will need to be transmitted to AIFLD and to ANACH so that the emphasis on production rather than institutional development clearly understood by all participants.

It is anticipated that FDF and the Agribusiness Investment Unit will also work with ANACH CARs once they have completed the AIFLD program. In order to ensure that this transition is carried out smoothly, increased coordination between AIFLD and FDF will be required during project implementation.

d. Proposed staffing

AIFLD carries out many programs in Honduras. However, the following staffing is suggested for the SFAD project activity:

- Project Manager
- Deputy Project Manager
- Controller/Financial Analyst
- Field Agronomist
- Secretary

C. Economic and Financial Analyses

1. Financial Plan

The Financial Plan for SFAD is presented in the Cost Estimates section. Funds contributed by USAID constitute a grant; funds contributed by GOH are partly a loan (stabilization funds) and partly an expenditure (institutional strengthening). The FDF and three "umbrella organizations" for cooperatives are included in the project--UNIOCOOP, ANACH, and AHPROCAFE. The financial plan is the source of project costs used in the financial and economic analyses. Additional information is included as an Appendix 1 to this Annex.

2. Project Benefits and Costs

An impact assessment of the SFOS Project conducted by Sparks Companies (1991) also includes a preliminary projection of the SFAD project's impact. It predicts the number of agricultural cooperatives that are expected to benefit, when they will benefit, and the quantities and values of production, yields and agricultural processing they are predicted to generate. These predictions serve as the basis for generation of a stream of net revenues over 10 and 20-year time

periods. The 10-Year Benefit Stream includes the five project years plus five post-project years; the 20-Year Benefit Stream includes five project years plus 15 post-project years. Extension of benefits beyond the five project years assumes that the cooperatives will be able to sustain the increased level of output achieved at the end of the fifth project year.

The project consists of two components--a farm production component and an agricultural production and marketing component. Measures of efficiency are calculated for both components, plus the total project.

Three alternative discount rates are used in this analysis:

- 8% Social discount rate
- 15% Standard discount rate
- 30% Current maximum interest rate in Honduras

The current maximum market rate of interest in Honduras is about 26%, which includes some element of deflation against the US dollar, domestic inflation, and risk. A discount rate of 30% approximates the current market rate of interest.

3. Financial Analysis

Financial analysis makes use of market prices to calculate the costs and returns from the point of view of the project -- in this case the point of view of the project donors, USAID and GOH. The measures of economic efficiency used to evaluate SFAD are Net Present Value (NPV) and Internal Rate of Return (IRR). The methodology is described at length in Appendix 1 to this Annex.

The results of the financial analysis indicate that (1) the IRR exceeds the minimum acceptable rate of 15% in all cases; (2) the NPV's for the 20-year scenario are nearly double those of the 10-year scenario; (3) the IRR values of the production component are more than double the IRR values of the processing and marketing component (Table 1).

TABLE 1

SUMMARY OF SFOS II FINANCIAL FEASIBILITY

Scenario	Total Project	Pro- duction Only	Processing Marketing Only
10-Year Benefit Stream -----			
Internal Rate of Return (%)	46%	55%	40%
Net Present Value (\$ Million)			
@ 8% Discount Rate	19.23	9.91	9.32
@ 15% Discount Rate	11.09	5.93	5.16
@ 30% Discount Rate	3.08	1.96	1.12

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20-Year Benefit Stream

Internal Rate of Return (%)	49%	57%	43%
Net Present Value (\$ Million)			
@ 8% Discount Rate	39.97	19.78	20.19
@ 15% Discount Rate	19.37	9.87	9.50
@ 30% Discount Rate	5.05	2.67	1.90

It can be argued that the measures of economic efficiency in Table 2 are understated because the part of GOH funds allocated to financial stabilization (Table 1) is planned to be a loan in lieu of a grant. The GOH should therefore recoup its money with interest. In practice, there is likely to be some loan default and erosion of value due to inflation of the Lempira, so as a conservative measure the entire amount is treated as an expenditure.

4. Economic Analysis

TABLE 2

SUMMARY OF SFOS II ECONOMIC FEASIBILITY

Scenario	Total Project	Pro-duction Only	Processing Marketing Only
10-Year Benefit Stream			
Internal Rate of Return (%)	48%	57%	42%
Net Present Value (\$ Million)			
@ 8% Discount Rate	19.58	10.05	9.53
@ 15% Discount Rate	11.40	6.06	5.34
@ 30% Discount Rate	3.32	2.06	1.26
20-Year Benefit Stream			
Internal Rate of Return (%)	50%	58%	45%
Net Present Value (\$ Million)			
@ 8% Discount Rate	40.32	19.92	20.40
@ 15% Discount Rate	19.68	10.00	9.68
@ 30% Discount Rate	4.81	2.13	2.04

As in the case of financial analysis, the economic analysis demonstrates that (1) the IRR exceeds the minimum acceptable rate of 15% in all cases; (2) the NPV's for the 20-year scenario are nearly double those of the 10-year scenario; (3) the

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IRR values of the production component are more than double the IRR values of the processing and marketing component. Since the only adjustment required relative to the financial analysis is reduction of cost, these results are consistent with expectations.

5. Other Benefits Measures

Sparks Companies generated project benefits from foreign exchange and employment for this report. The foreign exchange benefit is estimated to be \$17.08 million for the duration of the five-year SFAD project, of which \$4.96 million would be generated in the fifth year. To the extent that the cooperatives are able to sustain project-induced production and export gains, this benefit will continue in subsequent years.

The employment gain is estimated to total 18,874 person-years during the five-year project, of which 7,003 would be generated in the fifth and last project year. This annual number of jobs would continue in subsequent years if project-induced production gains can be sustained.

D. SFOS Evaluation results

The final evaluation of the Small Farmer Organization Project (522-0252) analyzed the project's four activities: strengthening and stabilization of rural open credit unions, strengthening and stabilization of agricultural service cooperative businesses, strengthening of the Financial Development Fund (FDF), and strengthening of the Institute for Cooperative Development (IHDECOOP). The SFAD project continues and expands upon the SFOS project activities with the FDF and the agricultural service coops. Therefore, this summary of the SFOS project evaluation will focus on the findings and recommendations for these two components.

1. Financial Development Fund (FDF)

The objective of the Small Farmer Organization Strengthening project was to address the constraint of an ineffective system for the delivery of productive inputs (seeds, fertilizer, credit, technical assistance, management skills and marketing services) to the agricultural sector. The project's specific strategy was to strengthen the poorly managed agricultural service cooperatives that faced financial instability and lacked production and investment credit. In addressing this problem, the project correctly identified the principal constraint in the agricultural service cooperatives to be the lack of managerial and financial discipline compounded by a consistent pattern of conflict of interest and patronage by these organizations' upper management.

In order to deal with this problem, the project established an organization, the Financial Development Fund (FDF), to carry out institutional restructuring and stabilization of agricultural service cooperatives.

To implement its mandate, the FDF developed a very disciplined approach with the

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small farmer cooperative businesses, very similar to that used by the IMF in dealing with client-countries. In the process, the FDF evolved into a quasi financial institution which focussed on strengthening the financial and managerial administration of cooperative businesses. This focus enabled the FDF to institutionally strengthen and financially stabilize some farmer business cooperatives.

These financially strengthened businesses now need to upgrade their managerial and technical skills in order to sustain operations. To achieve this, they will need further training in management, planning, and internal and financial controls, as well as in agricultural technology and product marketing.

Since the FDF has developed into a financial institution, it should continue to emphasize administrative and operational improvements as the basis of dealing with the agricultural cooperatives. This will preclude it from developing an in-house capability for providing technical assistance and training in areas not directly related to financial control and management.

In terms of applying lessons learned to a follow-on project, the evaluation recommended legally separating the FDF from its parent organization, FACACH. In order to prevent politicalization its resources and ensure an acceptable level of internal control, the FDF should be established as an independent organization with its funds held in trust by a private financial institution with a reputation for financial competence and honesty. The evaluation further recommended the retention of the FDF's approach of assisting only those small farmer organizations which demonstrated genuine interest in carrying out effective change. However, in carrying this out, it should use market determined interest rate and fees structures when preparing and implementing financial stabilization plans.

The FDF needs to upgrade the management and technical skills of its staff if it is to achieve self-sustainability in the medium to long term. To achieve this, future technical assistance must pass along advisory skills to the FDF's staff.

Its Board of Directors should assume more responsibility for achieving the FDF's objectives and goals. In terms of a follow-on project, the FDF should be given a clear set of objectives, in terms of expected performance of the cooperative organizations, and be permitted to operate within clearly defined guidelines to achieve these objectives. This will require clarifying the organization structure of the project to reduce and simplify the policy and decision making level, especially reducing AID's time consuming intensive prior review of virtually all actions and activities undertaken by the FDF. This should be transferred to the Board of Directors, the trustee and the technical assistance team. In order to improve its own management system, the FDF must develop an accounting/MIS system capable of measuring the revenues and costs of its operations against the opportunity cost of funds in the Honduran financial markets in order for its to measure its self sustainability.

2. Agricultural Cooperatives

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The SFOS project introduced fundamental management changes in selected farmer-owned cooperative businesses. Through the FDF, several cooperative businesses received financial stabilization assistance and all participating businesses adopted capitalization programs that represent significant improvements in their financial operations.

In terms of specific accomplishments, the project improved the participating cooperatives' business administration and management through its packaging of assistance with conditions that the businesses adopt specific reforms. It also implemented a very effective strategy with the coffee sector which systematically treated the coffee industry from farm to exporter, and particularly focussed on quality improvement, an area in which the cooperative businesses can have a competitive advantage. The project's strategy of developing UNIOCOOP as an agricultural input supplier and coffee marketer also achieved some success. It helped UNIOCOOP and its affiliated cooperatives develop into improved channels of distribution and further developed UNIOCOOP's abilities as a wholesaler of inputs.

The project's greatest weakness was in the FDF's ability to analyze the cooperatives as part of a larger agribusiness system. The FDF's financial strengths and bank orientation proved less than adequate in helping participating cooperative businesses analyze and pursue potential business opportunities, and its willingness to let unsuccessful cooperatives fail.

A follow-on project should build on lessons learned by continuing to package technical and financial assistance conditioned upon fundamental management and financial reforms. However, given the weaknesses in the FDF and its focus on financial and administrative strengthening, the project should address the constraints of limited entrepreneurial ability in the Honduran agricultural sector by including foreign technical advisors with proven business development skills, and by seeking to leverage the entrepreneurial skills that are found within the cooperative sector through the development of business partnerships, joint ventures, contractual arrangements with successful businesses. The technical assistance composition should be changed to include more assistance with agribusiness skills and experience in the analysis and development of business investments. In addition, the advisors should operate more independently of the FDF, and be responsible for specific output and performance in terms of the agribusiness opportunities they identify and help develop.

A follow-on project should emphasize the analysis of the competitiveness of participating cooperative in their current or potential markets. In terms of new investment opportunities, the project specifically should focus on opportunities in the coffee sector and in developing UNIOCOOP more fully as a wholesaler of services and inputs, particularly in terms of its competitive position in the coffee and fertilizer markets in a way that will attract affiliates as legitimate business partners.

**ASSISTANCE CHECKLIST
SMALL FARMER AGRIBUSINESS DEVELOPMENT
(522-0383)**

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE? Yes

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts (FAA Sec. 601 (a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

2. U.S. Private Trade and Investment (FAA Sec. 601 (b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

1. The project is designed to increase agricultural production, exports and employment opportunities. It will use a private sector strategy by working with agricultural service cooperatives to make these organizations more productive and competitive. In addition, the project will improve the technical efficiency of such cooperatives through training and technology transfer. Coffee processing is one area in which the project will have a major transfer impact. In addition, the project may work with rural unions which are constituted as cooperatives.

2. The project will directly promote U.S. private trade and investment in Honduras. The SFAD project will seek to increase linkages with U.S. firms and markets. The project envisions a number of agribusiness investments. Some of these activities may take the form of joint ventures with U.S. firms. In addition, the source for procurement of goods and services for the project is the United States. It is anticipated that a U.S. firm will be awarded a large

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technical assistance contract.

3. Congressional Notification

a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

c. Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b) (3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

3.a. The Project will comply with all Congressional Notification requirements prior to the obligation of funds

3.b. Funds are being obligated under the Food and Nutrition and Account as appropriated by Congress.

3.c. N/A

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4. **Engineering and Financial Plans** (FAA Sec. 611 (a)): Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

4. a) Yes
b) Yes

5. **Legislative Action** (FAA Sec. 611 (a) (2)): If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

5. N/A. No legislative action is required.

6. **Water Resources** (FAA Sec. 611 (b); FY 1991 Appropriation Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

6. Appropriated funds will not be used for water or water-related land resource constructions.

7. **Cash Transfer and Sector Assistance** (FY 1991 Appropriations Act Sec. 575 (b)): Will cash transfer of nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

7. N/A

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8. Capital Assistance (FAA Sec. 611 (e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

9. Multiple Country Objectives (FAA Sec. 601 (a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

10. U.S. Private Trade (FAA Sec. 601 (b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

8. U.S. assistance will not be used to finance capital assistance.

9. N/A. Project does not have multiple country objectives.

10. See response to No. 1 above.

11. Local Currencies

a. Recipient Contributions (FAA Secs. 612 (b), 636 (h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

11.a. The host country will contribute the local currency equivalent of approximately \$6.6 million to fund management and financial restructuring activities for farmer owned businesses.

b. U.S.-Owned Currency (FAA Sec. 612 (d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

11.b. No

c. Separate Account (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

11.c.(1) N/A. Local currency will not be generated as a result of this project.

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(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

11.c.(2) N/A

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

11.c.(3) N/A

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

11.c.(4) N/A

12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521 (a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

12.a. No. The project will support the private sector to develop exports based on demand and world markets. These exports are not likely to cause substantial injury to U.S. producers of the same, similar or competitive commodities.

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521 (c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to the third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

12.b. No.

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533 (c) (3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

13. No.

14. Sahel Accounting (FAA Sec. 121 (d)): If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

14. This is not a Sahel project.

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15. PVO Assistance

a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely requests any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

15.a. Assistance is not to at PVO.

b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

15.b. N/A

16. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

16. USAID/Honduras will cable confirmation of the signing of project agreement and send copies to the required offices.

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17. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

18. Women in Development (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

17. Metric measurements are standard in Honduras. Most procurements will not require measurements.

18. Yes. The project attempt to increase the participation of women in export production and processing.

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19. **Regional and Multilateral Assistance (FAA Sec. 209):** Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

19. No. The project will encourage open markets and increase trade. Other donors have complementary regional projects that also work with cooperatives.

20. **Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):**

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

20.a. No.

b. Will any funds be used to lobby for abortion?

20.b.No.

21. **Cooperatives (FAA Sec. 111):** Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

21. The project will work directly with agricultural service cooperatives to transform them into viable business entities. Cooperative members will receive benefits in the form of increased services and increased returns on investments in productions and processing.

22. **U.S.-Owned Foreign Currencies**

a. Use of currencies (FAA Secs. 612 (B), 636 (h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S.

22.a. The US does not have excess local currency which would be available for this use.

are utilized in lieu of dollars to meet the cost of contractual and other services.

b. Release of currencies (FAA Sec. 612 (d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

22.b. No.

23. Procurement

a. Small business (FAA Sec. 602 (a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

23.a. Yes.

b. U.S. procurement (FAA Sec. 604 (a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

23.b. Yes. Approved AID procurement procedures and policies will be followed.

c. Marine insurance (FAA Sec. 604 (d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

23.c. Yes.

d. Non-U.S. agricultural procurement (FAA Sec. 604 (e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

23.d. N/A. No non-U.S. procurement of agricultural commodity or product is envisioned.

e. Construction or engineering services (FAA Sec. 604 (g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

23.e. No.

f. Cargo preference shipping (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901 (b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately from dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

23.f. No.

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g. Technical assistance (FAA Sec. 621 (a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without under interference with domestic programs?

23.g. Yes. The project does not contemplate using facilities and resources of other Federal agencies at this time.

h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

23.h. Yes

i. Termination for convenience of the United States?

23.i. Yes

j. Consulting services (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

23.j. Yes

k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

23.k. See response to No. 17 above.

1. Competitive Selection Procedures (FAA Sec. 601 (e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

23.1. Yes

24. Construction

a. Capital project (FAA Sec. 601 (d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

24.a. N/A. This is not a capital project.

- b. Construction contract (FAA Sec. 611 (c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? 24.b. Yes
- c. Large projects, Congressional approval (FAA Sec. 620 (k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? 23.c. No such construction is contemplated.
25. U.S. Audit Rights (FAA Sec. 301 (d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? 25. Yes
26. Communist Assistance (FAA Sec. 620 (h)). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? 26. Yes
27. Narcotics
- a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? 27. Yes

- b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? 27.b. Yes
28. Expropriation and Land Reform (FAA Sec. 620 (g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? 28. Yes
29. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? 29. Yes
30. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? 30. Yes
31. Motor Vehicles (FAA Sec. 636 (i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? 31. Yes

32. **Military Personnel** (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? 32. Yes
33. **Payment of U.N. Assessments** (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? 33. Yes
34. **Multilateral Organization Lending** (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209 (d) (transfer of FAA funds to multilateral organizations for lending)? 34. Yes
35. **Export of Nuclear Resources** (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? 35. Yes
36. **Repression of Population** (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? 36. Yes

37. **Publicity or Propaganda** (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? **37. No**
38. **Marine Insurance** (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? **38. Yes**
39. **Exchange for Prohibited Act** (FY 1991 Appropriations Act Sec. 569): Will any assistance Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? **39. No**

**B. CRITERIA APPLICABLE TO
DEVELOPMENT ASSISTANCE
ONLY**

- | | |
|---|--------------------------------|
| <p>1. Agricultural Exports (Bumpers Amendment) (FY 1991 Appropriations Act Sec. 521 (b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities:</p> <p>(1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?</p> | <p>1.(1) No.
1.(2) No.</p> |
| <p>2. Tied Aid Credits (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?</p> | <p>2. No.</p> |

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3. Appropriate Technology (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

4. Indigenous Needs and Resources (FAA Sec. 281 (b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

3. No. However, the project will work with agricultural service cooperatives and will train members of agricultural cooperatives in cost saving and labor intensive technologies as appropriate.

4. The SFAD project responds to one of the major constraints in the agricultural sector - limited access of producers to markets, information, technology and services. The project strategy, which works with local agricultural service cooperatives is directed at to the small-scale producer structure of the Honduran agricultural sector. By working with a local implementing unit, the Financial Development Fund, the project also efficiently leverages the intellectual resources of the country. The project will undertake management and financial restructuring of agricultural service cooperatives. Once restructured, the project will assist these groups to undertake new business investments. Part of the management restructuring process will develop the managerial and leadership skills required for the cooperatives to be long-term viable enterprises.

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5. **Economic Development (FAA Sec. 101 (a)):** Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

5. Yes. The economic analysis demonstrates that this activity is economically sound. Furthermore, the project will increase the productive capacities of agricultural service cooperatives.

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6. **Special Development Emphases** (FAA Secs. 102 (b), 113, 281 (a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

6. (a) The SFAD project has a rural focus which will promote increased access for rural residents and producers to markets, technology and services. Through cooperative level investments the project will help create 10,000 jobs directly associated with project sponsored activities. Investments in processing operations will provide employment for primarily unskilled labor in the rural sector. This group will have expanded access to the economy. Investments will be based on open market forces. The project will utilize US businesses to provide technical assistance, training and commodities to carry out the strengthening activities and in developing business opportunities.

(b) Through management and financial restructuring of rural cooperatives, the project will promote more democratic private institutions. Experience under the Small Farmer Organization Strengthening project demonstrates that this type of change at the cooperative level is fundamental to more democratic decision making.

(c) The project is designed around the premise that Honduras must help itself to develop. It concentrates on assisting local private organizations to develop the skills that they will need to help put Honduras on the path the sustained economic and social growth.

(d) The project intends to promote economic change. It

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will directly create employment. It is expected that investment and export growth will help provide the foreign exchange Honduras needs to sustain economic development and to promote the participation by the disadvantaged, including women, in the economic benefits of this growth.

(e) The project is consistent with AID's Strategy for Economic and social Development in Central America, 1990-2000. The project will sponsor limited participation by Honduran cooperatives in international trade events. However, a specific regional focus is not envisioned in this project.

7. Recipient Country Contribution (FAA Secs. 110, 124 (d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

7. Yes. The developing country will provide approximately 50% of the cost of this project.

8. Benefit to Poor Majority (FAA Sec. 128 (b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

8. Yes

9. Abortions (FAA Sec. 104 (f); FY 1992 Appropriations Act, Title II, under heading "Population, DA" and Sec. 535):

- a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? 9.a. No
- b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? 9.b. No
- c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? 9.c. No
- d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? 9.d. No
- e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? 9.e. No

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

9.f. No

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

9.g. No

10. Contract Awards (FAA Sec. 601 (e): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

10. Yes

11. Disadvantaged Enterprises (FY 1991 Appropriations Act Sec. 567): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

11. Procurement will follow Agency policy and guidance for complying with the Gray Amendment. It is anticipated that the institutional contract will encompass economically and socially disadvantaged enterprises as appropriate through subcontracts.

12. **Biological Diversity (FAA Sec. 119 (g):** Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

12. (a) through (d): No

13. **Tropical Forests (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533 (c) - (e) & (g)):**

a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

13.a. Yes

b. Conservation: Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical

13.b. No

forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. Forest degradation: Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

13.c. No

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d. Sustainable forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

e. Environmental impact statements: Will funds be made available in accordance with provisions of FAA Section 117 Ic) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

14. Energy (FY 1991 Appropriations Act Sec. 533 (c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

13.d The project does not relate to tropical forests. N/A

13.e. Yes. An initial environmental evaluation determined that the project would not require an environmental impact statement.

14. Project does not relate to energy.

15. Sub-Saharan Africa Assistance (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) being provided in accordance with the policies contained in FAA section 102; (d) being provided in close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (e) being used to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy

15. The assistance does not come from the Sub-Saharan DA account.

reforms, the need to protect vulnerable groups; (f) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

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16. **Debt-for-Nature Exchange (FAA Sec. 463):** If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote; (d) natural resources management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

16. The project does not contemplate a debt-for-nature exchange at this time.

17. **Deobligation/Reobligation (FY 1991 Appropriations Act Sec. 515):** If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

17. Use of deob-reob is not envisioned at this time.

18. **Loans**

a. **Repayment capacity (FAA Sec. 122 (b)):** Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

18.a. through d. - This is not a loan project.

b. **Long-range plans (FAA Sec. 122 (b)):** Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

c. Interest rate (FAA Sec. 122 (b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

d. Exports to United States (FAA Sec. 620 (d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

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19. Development Objectives (FAA Sec. 102 (a), 11,113, 281 (a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

19.(1) The project will assist the poor majority by helping to create labor-intensive production and employment which will increase access to the economy at the local level. The project should help Honduras create and sustain economic growth which if managed properly will be broad based. The rural focus of the project will be carried out through local agricultural service cooperatives. (2) As noted above, development of cooperatives is an essential part of the SFAD project. Technical assistance and training will be used to encourage democratic participation. (3) The project will develop Honduran capacity to solve its own problems. (4) The project will promote farmer-owned businesses and investments. Women members of cooperatives will participate in ownership of these ventures. In addition, it is anticipated that agro-processing investments will employ a large number of women. (5) The project will promote free competition and open markets and as such will promote regional cooperation.

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20. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A)

a. Rural poor and small farmers: If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

b. Nutrition: Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

20.a. The target beneficiary group for this project is rural poor and small-scale farm enterprises. Increasing productivity will be accomplished through improved technical services and inputs of cooperatives. In addition, the project will provide direct training to small scale farmers in coffee processing and drying and other production related techniques. These efforts are expected to translate into increased rural income.

20.b. The project will be coordinated with other AID, GOH and donor projects to improve nutrition and address the problem of malnutrition.

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c. Food security: Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

20.c Increasing food security is not an objective of this project.

21. Population and Health (FAA Secs. 104 (b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

21. Assistance is not being made available for population of health activities. N/A

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b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development organizations;

23.b. The project will facilitate technical cooperation and development between U.S. sources of technical knowledge and local organizations as well as transfer of technologies within the region.

c. research into, and evaluation of, economic development processes and techniques;

23.c. N/A

d. reconstruction after natural or manmade disaster and programs of disaster preparedness;

23.d. N/A

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

23.e. N/A

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

24.f. N/A

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22. Education and Human Resources Development (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

23. Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

22. Assistance in not being made available for education, public administration or human resource development. N/A

23.a. Energy is not a focus of this project. N/A

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24. Sahel Development (FAA Secs. 120-21). If assistance is being made available for the Sahelian region, describe: (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) whether a determination has been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom).

The assistance is not being made for the Sahel region.

technical assistance contract.

3. Congressional Notification

a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

c. Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b) (3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

3.a. The Project will comply with all Congressional Notification requirements prior to the obligation of funds

3.b. Funds are being obligated under the Food and Nutrition and Account as appropriated by Congress.

3.c. N/A

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4. **Engineering and Financial Plans (FAA Sec. 611 (a)):** Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

4. a) Yes
b) Yes

5. **Legislative Action (FAA Sec. 611 (a) (2)):** If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

5. N/A. No legislative action is required.

6. **Water Resources (FAA Sec. 611 (b); FY 1991 Appropriation Act Sec. 501):** If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

6. Appropriated funds will not be used for water or water-related land resource constructions.

7. **Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575 (b)):** Will cash transfer of nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

7. N/A

LAC-IEE-91-77

ENVIRONMENTAL THRESHOLD DECISION

Project Location : Honduras

Project Title : Small Farmer Organization
Strengthening II

Project Number : 522-0383

Funding : \$7 million

Life of Project : 5 Years (FY 92-97)

IEE Prepared by : Rafael Rosario
USAID/Honduras

Recommended Threshold Decision : Categorical Exclusion

Bureau Threshold Decision : Concur with Recommendation

Comments : Pursuant to A.I.D. environmental regulations, exclusions are generally provided for education, technical assistance, or training programs except to the extent such activities directly affect the environment. These regulations also provide for exclusions for programs that provide support for intermediate credit institutions when the objective is to assist in the capitalization of the institution. These exemptions do not apply, however, to assistance for the procurement or use of pesticides. Therefore, the Small Farmer Organization Strengthening II project (SFOS II) will not provide support for the procurement or use of pesticides. The project agreement shall contain a covenant that no pesticides will be procured or used under this project without first conducting an Environmental Assessment and having it approved by the LAC Bureau Environmental Officer.

LAC-IEE-91-77

**ENVIRONMENTAL THRESHOLD
DECISION (cont.)**

Copy to : Marshall Brown, Director
USAID/Honduras

Copy to : Rafael Rosario, USAID/Honduras

Copy to : Wayne Williams, REA/CEN

Copy to : Mark Silverman, LAC/DR/CEN

Copy to : IEE File

John O Wilson Date AUG 14 1991

John O. Wilson
Deputy Chief Environmental Officer
Bureau for Latin America
and the Caribbean

INITIAL ENVIRONMENTAL EXAMINATION

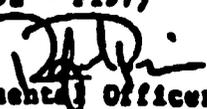
PROJECT LOCATION: HONDURAS

PROJECT TITLE: Small Farmer Organization Strengthening II

PROJECT NUMBER: 522-0383

FUNDING: \$7 Million Grant

LIFE OF PROJECT: Five Years (FY92 - FY97)

IEE PREPARED BY: Rafael Rosario 
Acting Environmental Officer
USAID/Honduras

RECOMMENDED THRESHOLD DECISIONa. Project Description:

The Small Farmer Organization Strengthening II project (SFOS II) will be a follow-on project to the on-going Small Farmer Organization Strengthening project (522-0252). The project will develop effective, efficient private sector cooperative and credit union businesses that operate on a sustainable basis. It will help these businesses to better serve their membership and to expand services to a wider rural population. It will strengthen the administrative, managerial and financial accountability capabilities of these institutions which will enable them to operate more efficiently. In addition, the project will promote member capitalization programs. Once cooperatives and credit unions have become administratively and managerially strengthened, the SFOS II project will work with the cooperative through their second level organizations to identify new business opportunities through which they may help member increase their incomes. Grant funds will be used for technical assistance training, and purchase of commodities (vehicles and computer/office equipment).

b. Recommendation:

This project qualifies for a Categorical Exclusion under 22 CFR 216.2 (c) (2). Subsections (i) and (x) provide exclusions for education, technical assistance, or training programs except to the extent such activities directly affect the environment and to support for intermediate credit institutions when the objective is to assist in the capitalization of the institution.

Based on the above, it is recommend that no further environmental study be undertaken for this project, an' that a "Categorical Exclusion" be approved.

Concurrence:


B. Joe Eckersley
Deputy Mission Director
USAID/Honduras

Date:

7/29/91

Clearance: ARD/O:DSteen
O/DF:MKromhout


Stefan Steyer 9/24.