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PROJECT ASSISTANCE COMPLETION REPORT

SMALL FARMER COFFEE IMPROVEMENT PROJECT

522-0176

PREPARED BY

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I. BACKGROUND

Coffee rust arrived in Honduras in 1980 and was considered to be a very serious threat to the generation of foreign exchange and most particularly, to small coffee farmers and rural laborers. Coffee rust is a pale yellow fungus that causes premature defoliation, which, given no control, can eventually kill the tree, and most certainly, reduce yields to the point that harvest is not worth the effort. Nicaragua had experienced coffee rust at an earlier date and concerted efforts were made to control the rust through a program of quarantines, which had little, if any success, due to the fact that rust can be spread by wind, birds, insects and man. It was known that rust could be chemically controlled with copper-based sprays which were considered environmentally safe. However, the application of such chemicals was not economically feasible for the small producers who had low yields on old plantations that were now threatened with further yield reducing rust. It was felt that yields must be tripled in order to pay the cost of such control. The only way to achieve such increases was to renovate the old plantations by either partial or complete renovation. At the onset, it was believed that partial renovation held the most promise, but it was quickly determined that total renovation (cutting down all old plants and replanting with high yielding varieties) was, in fact, the best alternative. There was no AID experience to draw on at that time because this Project was the first of its kind in the world.

II. FINANCIAL DATA

The Small Farmer Coffee Improvement Project was authorized on May 27, 1981. The Project Paper requested funding of \$9.55 million, of which \$7.3 million was approved and obligated on June 5, 1981. Amendment No. 1, dated August 30, 1982, obligated \$2.25 million. Amendment No. 2 to the Loan/Grant Agreement, dated February 8, 1985, was based on an authorization amendment and obligated \$700,000 in additional funding which brought the original Project funding total to \$10.25 million. The PP amendment of 1986, and the authorization of June 6, 1986, added an additional \$10 million and extended the PACD from May 27, 1986 until May 26, 1991. An additional authorization and an obligation of \$500,000 million was made on March 11, 1987, bringing the total Loan/Grant Project financing to \$20.75 million. The GOH counterpart was \$29.02 million. A total of ESF local currency of L44.463 million was programmed as the GOH counterpart contribution. This brought the total LOP financing to \$49.77 million. The foregoing was based on an exchange rate of Lempiras 2.00 to US Dollar 1.00. However, in April of 1990, exchange rates changed dramatically, and until the PACD, the floating exchange rate significantly reduced the Dollar down, and for the most part explains the pipeline of over \$1 million to be deobligated.

Project expected to reach 10,400 small coffee producers in ten years and to have considerable spread effects to others. Major activities under the Grant component were Extension and Training. The extension activity encompassed all of the foreign technical assistance and the training activity was slated to cover US Dollar funded training. Major activities under the Loan component were Extension, Credit, Beneficios (on-farm units) and Training. The Extension Department of the Project was the primary administrative unit carrying out the Project technical assistance, credit supervision at the farm level, and further assurance of the integration of the Project into the activities of the institute. Extension activities included paratechnical agents, demonstration lots, rehabilitation of damaged lots, publications, characterization of soils in selected regions, and crop diversification. The Project Agreement anticipated an expansion in the original goal of 106 coffee extension agents in the field, but the GOH was not able to comply with this goal because of budget constraints. This was compensated by hiring temporary field extension workers paid for by Project funds through the USAID/IHCAFE Project Unit and by using local farmers as paratechnicians.

The extension agents used a variety of teaching methods in their work with the beneficiaries, such as demonstration plots and meetings where talks or demonstrations were presented. The paratechnicians played a critical role in helping the extension agents decide whether or not a given farmer would enter the Project because of their extensive local knowledge. They had about 5.9 years of schooling, on the average; the majority were coffee farmers who had participated in the Project and were used for specific tasks and for a specific time. Another mechanism for technology transfer was the experimental model, which was based on a group approach rather than the individual farm visitation model that had been used traditionally. Diffusion of recommended practices to non-Project neighbors was also ascertained. The final evaluation indicated that more than one-half (58%) of the respondents to their survey responded that they had observed their neighbors using some of the recommended practices and had implemented them in their own farms.

A credit fund was established through the Central Bank for the participating public and private banking institutions. Credit activities included: (1) loans to individual small farmers and to cooperatives for renovation of old coffee plantations; (2) loans for (small dryers and quality enhancing processing plants); and (3) loans for diversification. Beneficio activities included demonstration units throughout major coffee producing areas, paratechnicians and collaboration with other agencies. One of the outcomes of the project was that it opened the door to credit for 62 percent of small farmers who were coffee beneficiaries that had never had formal credit experience before. Many of those farmers would, from then on, be eligible for regular bank credit. Although it was not as high as desired, credit repayments totaled over 20 million Lempiras, which would permit continued lending after the PACD. On-farm coffee processing facilities were upgraded with the help of credit, and regular bank operating loans to cover annual coffee maintenance costs were extended to almost one-half of the beneficiaries.

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The Special Covenant section of the original Project Agreement included the provision of adequate production credit for participants through the banking system; the assurance that all credit for on-farm activities would be allocated equitably; a GOH contribution of one million dollars to the investment fund (long term coffee renovation loans); a provision that the interest rates charged subborrowers under the Project would be no less than prevailing rates for similar kinds of loans by the end of the Project; establishment of an evaluation program as an integral part of the Project; and that there would be prompt access by participating banks to all principal, interest, and other reflows to the investment fund for relending.

Two additional conditions precedent were added to the Project Amendment 2. The first required IHCAFE evidence that they had successfully negotiated the involvement of the private banks using their resources for annual production credit for Project clients. Commitments by Banco Sogerin, BANHCAFE, BANADESA, and Banco de Occidente were made in August, 1986, and USAID accepted the condition precedent as having been met through Project Implementation Letter No.46. The second condition required an IHCAFE feasibility study showing ways to improve the efficiency of coffee processing facilities and to develop a scheme for the privatization of public processing facilities. USAID Project Implementation Letter No.54 deleted this requirement since it would be highly unlikely that very inefficient, out-dated processing facilities could be privatized. In that same letter, USAID accepted a shift of funds from large processing facilities to beneficios for improving export quality coffee. An audit of March, 1989, indicated two apparent noncompliance of terms by the GOH and IHCAFE relating to counterpart funds and vehicle use, but these were satisfactorily responded to by USAID/Honduras.

The credit provided through the USAID/IHCAFE Project was a significant part of BANADESA's portfolio in many branch offices. Because of the smaller amounts involved, the Project credit was less important in the other banks' portfolios, although its importance varied by region. However, the Project was relatively successful in attracting banks to the program. The interest rate charged the small farm coffee producers was established by a tripartite agreement and it was subject to yearly changes. The rates charged at the end of project was close to but not at the market rate.

Training activities were designed to assist small producers, paratechnicians and Instituto Hondureño del Café (IHCAFE) staff with emphasis on extension agents. There was at least one training course organized especially for women at the Panamerican Agricultural School at Zamorano. In-service training for extension agents took several forms: formal courses, regionally managed field training, information training by foreign advisors, on-the-job training by those more experienced, and centrally managed formal training. The Project had its own center for experimental research located in La Fe, in the Municipality of Ilama, Santa Bárbara, and most new agents would go through a month-long orientation at the center.

V. SUMMARY OF PROJECT INPUTS

INPUTS		OBLIGATE	EXPENDITURES	TO DEOBLIGATE
1. Technical assistance for training, research, administration, credit and Project monitorship. Approximately 286 person months of long and short term TA.	1.1 A.I.D.	\$ 4,281,171	\$ 3,961,002	\$ 320,169
2. Credit fund. Six private banks and one public bank participated in sub-loans.	2.1 A.I.D.	\$12,797,451	\$12,797,451	- 0 -
3. Training provided to extension agents, credit agents, <u>paratécnicos</u> , administrative staff, and farmers. Training involvements for 152,953 male and 7856 female farmers, 6263 paratechnicians and 1923 extensionists. Almost all participants received multiple training opportunities.	3.1 A.I.D.	\$ 796,820	\$ 606,333	\$ 190,487
4. Extension activity, commodities, publicity, audit and evaluation, demonstration lots, repair of damaged lots, soil characterization and testing. 89 4x4 vehicles, 30 motorcycles, and 16 computer units represented major commodity procurement.	4.1 A.I.D.	\$ 2,687,055	\$ 2,196,787	\$ 490,268
5. <u>Beneficio</u> activity, demonstration and publicity	5.1 A.I.D.	\$ 187,500	\$ 160,606	\$ 26,894
TOTAL TOTAL	A.I.D. GOH	\$20,749,997	\$19,722,179 \$29,687,773	\$ 1,027,818

VI. PROJECT OUTPUTS

The project outputs, indicators and final status are summarized on the following table.

Outputs	Indicators (End-of-Project)	By PACD
- IHCAFE's ability to help small farmers increased	10,400 new coffee farmers serviced, increasing by 1,000/yr.	12,519 new farmers had been helped, increasing on average in excess of 1,000/yr.
	10,400 new farmers receive training	30,506 have received training formally
- Technology improved	13,000mz. using improved varieties	16,641 mz. using improved varieties, fertilized and treated for pests
- Management by farmers strengthened	13,000 mz. under improved cultivation	16,641 mz. under improved cultivation
	500 mz. using diversification and/or improved livestock	410 mz. diversified
	500 mz. of coffee replaced by other crops	200 mz. cacao
- Viable system of quality control of post harvest coffee is initiated	14 wet rehabilitated	3,000 farmers utilizing quality control measures
	2,000 farmers utilizing	
- Viable, self-sustaining credit system in place	By 1985, reflows begin to finance farmers beyond original participants	Started in 1985 - viable for 20 years
- Applied research and soil testing expanded	36 research plots	46 plots in operation
	3,000 soil tests	3,467 soil tests
	85 extension agents trained in soil analysis	90 extension agents trained

Outputs	Indicators (End-of-Project)	By PACD
- Training of extensionists, para-technicians, farmers and IHCAFE's regional staff	107 extension agents	115 extensionists trained
	200 para-technicians	325 paratechnicians trained
	10,000 farmers	30,506 farmers trained
	9 regional administrative chief	9 administrative chiefs trained

On the preceding Outputs section "Management by farmers strengthened", the number of small and medium farmers participating in diversified crop systems, whereby coffee is taken out of production, increased to 610 manzanas over LOP. This output was not accomplished. The dramatic yield increase and resultant income realized made the task of convincing farmers to take coffee out of production an impossible one. About 200 manzanas of very marginal coffee, at an elevation of less than 600 meters, was converted to cacao, but can hardly be considered in the spirit in which the output indicator anticipated it would be carried out. Yields and income on prevailing prices were just too high to convince farmers to take land out of coffee to convert to crops with which he/she was unfamiliar or had a perceived higher risk or lower income potential. When this became so unrefutable, IHCAFE began to work with farmers in an effort to have them diversify into other crops on land which was at rest or under-utilized. Considerable success was noted in this approach with a pilot project involving 130 farmers in the last two growing seasons of the project. Reduced and projected low prices for coffee may well be reason enough for farmers to become more active in transferring coffee to other crops.

On the Outputs section, "Viable system of quality control of post-harvest coffee is initiated", it should be noted that a significant change was made in the manner in which the output was accomplished. In 1986, a study was initiated on the 14 existing beneficios throughout Honduras. The recommendation of the study was that the timing was not right, the cost of rehabilitation would be too high, and in general, the infrastructure was not adequate to deliver adequate product to the beneficios, even if they were rehabilitated. In early 1987, the Mission approved an alternative plan to accomplish the same output target of improving the quality of coffee through post harvest interventions. This involved a system whereby farmers would process their own production at the farm level and, in many instances, the production of their neighbors. By the end of the Project, 1,027 small on-farm were operating in the coffee sector through financing from the Project and an undetermined number financed by other sources were operational. Although these units are small, there was an intentional but reasonable over-capacity designed in the system which has allowed participants to process coffee of neighboring farmers in many instances. While it has been easy to determine direct farmer beneficiaries, it has been quite difficult to measure the indirect users of the technology. IHCAFE has estimated there are three users (beneficiaries) for each installed beneficio.

Based on field visits, the Project office believes this to be a reasonable assumption. In conclusion, the Mission believes the output has been met and even surpassed, but utilizing an unplanned mechanism to do so.

Small farmer's yields, following renovation, have averaged nearly 25 quintals per manzana compared to only 6 to 8 prior to the project. In 1980, IHCAFE reported some 1.5 million sacks on an estimated 175,000 manzanas or an average of 8.5 sacks per manzana. In 1990, IHCAFE reported 2,665,488 sacks of production on 245,000 manzanas, or an average of 10.9 sacks per manzana. The increase cannot only come from the approximate 16,650 manzanas renovated under the Project which only represents 6.7% of the total area. IHCAFE has estimated that nearly all of the 70,000 manzana increase in coffee area has been planted under the same conditions as Project renovation. Further, IHCAFE has estimated that for every manzana of renovation in the Project, there have been at least two others renovated and covered by financing from other than Project sources. Yields, overall, have increased by some 28% and most assuredly Project technology gets the credit for the increase. Rust still exists in every corner of the country, and many of the very smallest producers have gone out of business because they were just too small to be credit-worthy and, therefore, saw yields going steadily downward until they were forced out of coffee.

There are no remaining covenants for the Project. The only one at the PACD stated that the GOH must maintain the level of the credit fund at its original level for ten years following the PACD. On May 29, 1992, the Mission determined that the credit line had achieved its objective and was no longer required to achieve project outputs and, therefore, would be formally terminated at the earliest possible date. By this action, there are no additional covenants for the Project. By virtue of this action, there are no post PACD monitoring actions remaining except for any actions required by the USAID controllers office.

VII. SUMMARY OF EVALUATIONS

There were five evaluations of the project done. The final evaluation was carried out in April 1990 by Ronald L. Tinnermeier from the Colorado State University and Edgard Nesman from the University of South Florida. This evaluation's objectives were (1) to study the current capacity of IHCAFE to coordinate project activities and to provide improved extension services to small producers; (2) to evaluate the efficiency developed by banking institutions in providing credit; and (3) to review data measuring the project's impact and to determine the validity and adequacy of such data. The two member team reviewed documents, interviewed personnel at all levels, analyzed and summarized project data, and interviewed a random sample of 276 project beneficiaries. The major findings and conclusions were:

- "This well-managed and coordinated project will meet most objectives by its May 1991 Project Assistance Completion Date (PACD).
- Coffee yields have increased from 6 to 25 quintals per manzana (1.7 acres) and coffee renovation has covered 13,003 manzanas.
- Close to 10,000 small and medium size farmers have received credit and technical advice. Ninety percent reported no or few problems in meeting project requirements.
- Most beneficiaries used technical practices on their other coffee areas not financed by the project. An estimated 55 percent reported their nonproject neighbors also were using the technology.
- IHCAFE data validity and adequacy were very good.
- Loan delinquency is rising and needs to be dealt with now."

VIII. ACTIONS STEMMING FROM RECOMMENDATIONS

1. IHCAFE would provide an updated training plan through the PACD. The plan would include extension agents, paratechnicians, farmers and their families. Training would emphasize financial management including, but not limited, to credit.
2. The recommendation on the need to assume more and more of the technical and credit supervision by participating banks would be passed to private banks by IHCAFE.
3. An on going study of loans canceled under the reserve loan fund for uncollectables to help guide future credit activities would be completed by IHCAFE.
4. An on going study analyzing technical recommendations from an economic point of view would be completed by IHCAFE.
5. IHCAFE would issue fertilizer recommendations stemming from the FHIA soil characterization studies.
6. IHCAFE would revise crop diversification goals.

All recommendations made in the final evaluation were closed by November of 1990. A previous evaluation was done by the Evaluation and Monitoring office of the Project, but it was not mentioned in detail in this report because both evaluations coded identical items so that they could be compared, and the information from the two separate sources were