

PD-ABL-587

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

HONDURAS

PROJECT PAPER

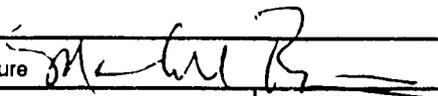
SMALL FARMER EXPORT DEVELOPMENT

AID/LAC/P-906

PROJECT NUMBER: 522-0399

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Agency for International Development PROJECT DATA SHEET				1. Transaction Code [A] A = Add C = Change D = Delete		Document Code 3			
2. Country/Entity Honduras				3. Project Number 522-0399					
4. Bureau/Office LAC		[05]		5. Project Title Small Farmer Export Development					
6. Project Assistance Completion Date (PACD) MM DD YY 09 30 98				7. Estimated Date of Obligation 9/28/94 <small>(Under "B" below, enter 1,2,3, or 4)</small> A. Initial FY 9   4   B. Quarter [ ] C. Final FY					
8. Costs \$000 or Equivalent \$ 1 = 9.10									
A. Funding Source		First FY 94			Life of Project				
		B. FX	C. L/C	D. Total	E. FX	F. L/C	G. TOTAL		
USAID Appropriated Total									
(Grant)		500	200	700	1,630	870	2,500		
(Loan)									
Other	1. FFA		100	100		867	867		
U.S.	2.								
Host Country			0	0		769	769		
Other Donor(s)									
TOTALS		500	300	800	1,630	2,506	4,136		
9. Schedule of USAID Funding (\$000)									
A. Appropriation	B. Primary Purpose	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)	Agriculture					700		2,000	-
(2)	Environment					0		500	
(3)									
(4)									
TOTALS									-
10. Secondary Technical Codes (maximum 6 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 develop agricultural export crops and mechanisms that are appropriate for small farmer participation and which lead to increases in small farmer incomes.									
14. Schedule Evaluations MM YY MM YY Interim   0   2     9   7   Final   0   9     9   8					15. Source/Origin of Goods and Services [X] 000 [ ] 941 [ ] Local [ ] Other (specify) _____				
16. Amendments/Nature of Change Proposed (This is page 1 of a ___ page PP Amendment)									
Approved by	Signature 				DATE DOCUMENT RECEIVED IN USAID/W, OR FOR USAID/W DOCUMENTS, DATE OF DISTRIBUTION				
	Title: Director USAID/Honduras		Date Signed: 9/24/94						

**HONDURAS**

**PROJECT PAPER**

**SMALL FARMER EXPORT DEVELOPMENT PROJECT**  
**(522-0399)**

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## PROJECT AUTHORIZATION

Name of Country: Honduras  
Name of Project: Small Farmer Export Development Project  
Project Number: 522-0399

1. Pursuant to Sections 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Small Farmer Export Development Project for the Republic of Honduras (the "Cooperating Country") involving planned obligations of not to exceed Two Million Five Hundred Thousand United States Dollars (\$2,500,000) in Grant Funds, subject to the availability of funds in accordance with the USAID OYB/Allotment process, to help in financing foreign and local currency costs for the Project. The estimated Project Assistance Completion Date (PACD) is September 30, 1998.

2. The Project will assist small Honduran farmers (with up to 10 hectares of land) to identify, produce, harvest and export new nontraditional agricultural crops. The Fundación Hondureña de Investigación Agrícola (FHIA) will implement the project on behalf of the Government of Honduras (GOH). Small farmers, often through their producer associations, will be provided subsidized assistance in the export of at least 5 new nontraditional crops until such time as they have exported the crop on a commercial basis. At that point, project services will continue but on a cost-plus-fee basis. It is expected that small farmer households will benefit from increased incomes, that Honduras will benefit from the generation of new foreign exchange earnings, and that the FHIA will benefit from an improved capability to reach small farmers and to prioritize its research interests.

Project funds will be used to fund short-term technical assistance, training for FHIA staff and farmers, commodities, operating expenses, evaluations, audits, and USAID project management.

3. The Project Agreement, which may be negotiated and executed by the Officer to whom such authority is delegated in accordance with USAID 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 USAID may deem appropriate:

### 3.1 Source and Origin of Goods and Commodities, Nationality of Services

Commodities and services financed by USAID under the Grant shall have their source and origin in the United States, except as USAID may otherwise agree to in writing. Ocean shipping financed by USAID under the Grant shall, except as USAID may otherwise agree to in writing, be financed only on flag vessels of the United States.

Local procurement is authorized in accordance with Handbook 1, Supp. B, Chap. 18. If, during implementation of the project transactions are proposed that require a waiver under Handbook

1, Supp. B, Chap. 18, such waivers will be obtained before proceeding with the procurement. Air transportation financed under the grant shall be on U.S. flag carriers except as USAID may otherwise agree in writing and except in cases in which such carriers are not available, as defined by the U.S. Fly America Act.

### 3.2. Covenants

The Project Agreement shall include the following covenants:

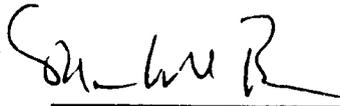
- a. The GOH and FHIA shall make every effort to ensure that counterpart funds are available in a timely and satisfactory manner. Likewise, the GOH and FHIA shall provide USAID with quarterly reports on the provision of counterpart contributions. These reports shall be provided no later than 30 days after the end of the quarter. Should the GOH and/or FHIA 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 USAID, USAID may suspend assistance to one or all project activities until such time that USAID shall determine that the assistance may be continued or that one or more of the project activities be terminated.
- b. The GOH and FHIA agree that no pesticides will be procured with Project funds or used in connection with activities financed hereunder except where USAID specifically approves these in writing prior to their purchase and use. No pesticides will be used on crops, if the pesticide does not have a registration with the U.S. Environmental Protection Agency and if the crop does not have an established tolerance level. Class I and Class II pesticides will not be utilized in any agricultural effort supported by funds under this Project.
- c. The GOH shall make every effort to promote coordination of, and cooperation between, efforts related to the export of nontraditional agricultural products carried out by public sector institutions and those carried out by FHIA under the Project.
- d. The GOH agrees that at whatever time, as formally notified by USAID in writing, USAID concludes that the management of FHIA is not acceptable, USAID may suspend all or a portion of new Project disbursements until such time as the management of FHIA again becomes acceptable.
- e. The GOH agrees to maintain the status which provides FHIA with exemption from taxes, tariffs and any other surcharges on the import of vehicles, operating equipment and supplies and on salaries and other effects of FHIA's international staff financed under the Project.

f. Assurances That USAID Programs Do Not Result in the Loss of Jobs in the U.S.:

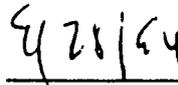
No funds or other support provided hereunder may be used in a project or activity reasonably likely to involve the relocation or expansion outside of the United States of an enterprise located in the United States if non-U.S. production in such relocation or expansion replaces some or all of the production of, and reduces the number of employees at, said enterprise in the United States.

No funds or other support provided hereunder may be used in a project or activity the purpose of which is the establishment or development in a foreign country of any export processing zone or designated area where the labor, environmental, tax, tariff, and safety laws of the country would not apply, without the prior written approval of USAID.

No funds or other support provided hereunder may be used in an activity which contributes to the violation of internationally recognized rights of workers in the recipient country, including in any designated zone or area in that country.



\_\_\_\_\_  
Marshall D. Brown  
Mission Director



\_\_\_\_\_  
Date

**PROJECT PAPER**  
**SMALL FARMER EXPORT DEVELOPMENT**

**EXECUTIVE SUMMARY**

**I. INTRODUCTION**

The Small Farmer Export Development Project (522-0399) is designed to develop agricultural export crops and mechanisms that are appropriate for small farmer participation and which lead to increases in small farmer incomes. This project will establish a market research and trade promotion program within the Fundación Hondureña de Investigación Agrícola (FHIA) which will promote the successful export of at least 5 new nontraditional crops among small farmers. It is expected that incomes of participating farmers will increase an average of 15% per year over the four year project life from current levels.

The estimated cost of this project is \$4,136,230. USAID will contribute \$2.5 million in grant funds, FHIA will contribute the local currency equivalent of \$867,000, and the GOH will contribute the local currency equivalent of \$769,230. The project will be implemented by FHIA through a Handbook 13 grant, under the auspices of a bilateral Project Agreement with the GOH. The Project Assistance Completion Date (PACD) is September 30, 1998.

Although only ten years old, FHIA has developed into a mature, viable research organization with an excellent international reputation. FHIA expects that its work with the marketing aspects of agricultural crops under the project will strengthen and make more relevant its traditional research activities.

**II. PROBLEM**

Exporting perishable agricultural products is an extremely complex and risky endeavor. It requires: in-depth knowledge of the market's requirements; correct timing for planting and harvesting; shipping to ensure the best price during a market window; knowledge of when to irrigate and care with the application of pesticides; sufficient quality product in order to fill an order; financing; and knowledge of legal contracts. It is not surprising that small farmers in Honduras have exported few agricultural products, and have had a minimal role in nontraditional agricultural export promotion projects. Much of the gains in nontraditional agricultural exporting have been captured by relatively large scale Honduran farmers. However, there is considerable evidence that the small farmer can and will participate in exporting to regional and international markets if provided with sufficient technical assistance in the areas of market research, packaging and shipping requirements, inspections and U.S. quality and phytosanitary standards. For example, plantain is presently being exported to El Salvador and to the United States by two small farmer cooperatives. Another small farmer agricultural cooperative is packing and exporting Chinese vegetables. Other cooperatives in Honduras are now gearing up to export.

For purposes of this project, Honduran small farmers are defined as **farmers with up to ten hectares of farm land**. Farmers with lesser holdings are unlikely to have land suitable for export crop production, and because of their precarious situation, unlikely to be willing to take a risk with an unfamiliar agricultural crop.

### III. RELATIONSHIP TO USAID AND COUNTRY STRATEGY

This project will support the Agency's goal of Encouraging Broad-Based Economic Growth and USAID/Honduras' Strategic Objective No. 1, "Enhanced Economic Participation and Increased Incomes of the Poor." The project will also contribute to two Program Outputs: "Expanded Access and Opportunity through Empowerment of the Poor" and "Expanded Access and Opportunity through Improved Functioning of Markets."

### IV. PROJECT DESCRIPTION

#### A. Project Goal and Purpose

The **Goal** of SFED is to enhance the economic participation and increase the incomes of the poor. The **Purpose** is to develop agricultural export crops and mechanisms that are appropriate for small farmer participation and which lead to increases in small farmer incomes. Honduran small farmers are defined as **farmers with up to ten hectares of farm land**.

#### B. Project Strategy

Under the Project, FHIA's strategy will be to identify exportable nontraditional crops and to assist small farmers (both men and women) in production, harvesting, post-harvest handling, and marketing until these small farmers (often in conjunction with producer associations or larger exporters) have successfully exported.

To export successfully, small farmers will be required to provide products of sufficient quality and volume to supply the demands of international markets. FHIA intends to develop the capacity to produce this quality and volume by working with cooperatives or groups of small farmers and developing relationships with larger producers and exporters who may need to accumulate small farmer produce to fill their own orders.

Small farmers can export through their producer associations. The producer association accumulates the necessary volume for the order, ensures quality control and appropriate packaging, manages the contact with the buyer, and if necessary brings in outside expertise. Often a representative from the buyer will provide the association with technical assistance on product grading and quality standards. In Central America, this has proven to be an efficient vehicle for exporting perishable agricultural goods.

Small farmers can piggyback on large experienced producers and exporters. This cooperation takes two forms: the small farmer exports together with the larger producer, thereby sharing risk; or, the small farmer sells his/her product to the larger producer, thereby realizing less profit but reducing risk. Both systems are good alternatives for the small farmer. There is some positive experience of this nature in Honduras.

FHIA will reach out to small farmers through talks at producer association meetings, through training courses offered by FHIA staff, by inviting small farmers (with special efforts to reach female headed households) to observe demonstration plots, and by utilizing successful extension methodologies developed under the USAID-funded Land Use and Productivity Enhancement (LUPE) Project. FHIA will initially sign agreements with four producer associations, such as Fruta del Sol, the Cooperativa de Horticultores de Siguatepeque Limitada (COHORSIL), the Cooperativa Agrícola Regional de Plataneros Independientes de Honduras Ltda. (CARPIHL), and the Asociación Nacional de Productores de Plátano de Honduras (ANAPPLAN), to develop possible exports of berries, new varieties of plantain and organic bananas. FHIA will also work with about 1,500 small farmers participating in the LUPE Project and with about 250 small farmers located around its La Esperanza research station. The La Esperanza area has rich soils appropriate for several new potential exports, including asparagus, berries and chinese vegetables.

After small farmers have successfully exported a new crop, small farmers will be considered to be "commercial" producers of that crop and assistance from FHIA for production of that crop will continue, but on a cost-plus-fee basis. All "commercial" farmers, be they small, medium, or large will be eligible for assistance from FHIA on a fee for services basis.

FHIA's efforts under this project will make a lasting contribution to participating male and female small farmer households by helping them generate a new source of income (as producers and exporters or laborers in the fields or in packing plants) and to Honduras by helping it diversify its agricultural and export base and generate foreign exchange. FHIA will have internalized the capacity to assist farmers of all sizes in the areas of market research and export marketing, thereby allowing it to continue to offer such services after the project ends. The activities funded under this project will also have an important impact on FHIA's traditional research: through increased exposure to farmers and the demands of international markets, researchers will be in a better position to identify research priorities.

### C. End of Project Status

By the PACD, it is expected that the project will have achieved the following results:

- \* \$14 million in cumulative sales of export crops attributable to the project, including \$5 million from participating small farmers;
- \* 3,000 small farmers (of which approximately 210 are women), previously non-exporters, producing and exporting nontraditional crops on a commercial basis;

- \* 6,000 new seasonal jobs for poor rural women (60%) and men (40%) through the production of export crops by the final year of the project; and
- \* A sustainable capacity within FHIA and among selected small producer associations to offer Honduran farmers export related market research and technical assistance.

#### **D. Major Outputs**

To attain those results, the project will have produced the following major outputs:

- \* At least 5 new nontraditional crops will have been selected for research and development, and for production and export by small farmers;
- \* Over 1,400 small farmers (of which approximately 100 are women) and extension workers will have been trained in nontraditional crop production and export quality control;
- \* Over 1,700 small farmers, researchers and exporters will have been trained in environmental concerns and sustainable agriculture;
- \* Establishment within FHIA of institutional mechanisms to transfer technology to small farmers; and
- \* An agribusiness and marketing office will have been established within FHIA to generate information that will enable FHIA to establish research and production priorities.

#### **E. Financial Plan**

The detailed cost estimates for planned project inputs are reflected in the FHIA program proposal which is incorporated herein as a component part of this Project Paper. See Annex A and Exhibits A-1 through A-5 of the Expanded Project Description (FHIA proposal) for input pricing schedules. Reasonable amounts have been included in the financial plan for inflation and contingency. Overall the financial estimates are considered reasonable and firm, meeting the requirement of Section 110 (a) of the FAA. The planned methods of financing project inputs (direct disbursement to FHIA under a Handbook 13 grant, direct disbursement for Mission Personal Services Contractor management costs and evaluation costs) comply with USAID regulations. FHIA has proven capable of managing and accounting for USAID assistance resources under other project activities. Moreover, FHIA has received regular financial audits without significant findings. The proper internal control and accountability of project funds is therefore reasonably assured.

The chart below lists the contributions of USAID, FHIA and the GOH and the expected uses of those funds. The GOH contribution is expected to be derived from the PL-480 local currency accounts.

<b>ILLUSTRATIVE SUMMARY FINANCIAL PLAN</b>				
	<b>USAID</b>	<b>FHIA</b>	<b>GOH</b>	<b>TOTAL</b>
<b>Salaries</b>	738,000	150,000	0	888,000
<b>Travel and Per Diem</b>	175,000	50,000	0	225,000
<b>Administrative Support</b>	116,000	415,000	0	531,000
<b>Commodities</b>	260,000	40,000	560,000	860,000
<b>Technical Assistance</b>	362,000	120,000	0	482,000
<b>Service Contracts</b>	455,000	0	0	455,000
<b>Training</b>	100,000	37,000	209,230	346,230
<b>Monitoring and Evaluation</b>	110,000	40,000	0	150,000
<b>Audit</b>	28,000	0	0	28,000
<b>USAID Project Assistant</b>	125,000	0	0	125,000
<b>Contingency</b>	31,000	15,000	0	46,000
<b>TOTAL:</b>	<b>\$2,500,000</b>	<b>\$867,000</b>	<b>\$769,230</b>	<b>\$4,136,230</b>

#### **F. Project Activities**

With project support, FHIA will provide assistance to ensure the successful export of at least 5 new nontraditional crops. FHIA will establish a new 11 person Agribusiness and Marketing Office (ABM) to strengthen areas which are currently weak within FHIA: market research and trade promotion. The General Manager of FHIA, with assistance from the ABM Office and the FHIA Departments of Research, General Services and Communications, will coordinate FHIA production and export related services to participating farmers.

The activities to be undertaken will include:

#### **Market Information**

1. **Market Studies/Crop Identification:** FHIA's ABM Office and the Information Center will undertake market studies to identify at least 15 nontraditional crops with export potential. The studies will include an analysis of market windows; product requirements; and price information. FHIA will then narrow the list of

crops down to 5 or 6 according to pre-defined selection criteria, which include economic and environmental factors, as well as whether the crop is suitable for small farmer production and export. Such crops could include: asparagus, onions, raspberries, rambutan, plantain, ginger, palm heart, ornamental plants, organic cacao, organic bananas, organic plantain, black pepper, mangoes, artichokes, carambola, bamboo shoots, neem oil, and chinese vegetables.

2. **Crop Profiles:** Once 5 or 6 crops have been identified, FHIA will develop a profile of each crop including its market study; a crop research plan; an analysis of where in Honduras it can be grown; agricultural inputs required; a small farmer outreach plan; market promotion activities; an analysis of when the crop might reasonably be expected to reach commercial levels; trial shipments anticipated; a complete budget of all costs; and environmental considerations. The ABM Office and FHIA's researchers and economist will be actively involved in the development of the profiles.
3. **Buyer Identification:** Through FHIA's Market Information Center, buyers for the crops will be identified. FHIA will seek to establish permanent commercial linkages between them and the Honduran growers.
4. **Price Information:** The Market Information Center of FHIA will provide continuous price information on selected markets in the U.S. and Europe.
5. **Publications:** FHIA, utilizing its Communications and Research Departments and the ABM Office, will produce regular newsletters and reports on topics such as new crops, price trends, competitor behavior, and trade regulations.

### **Production Assistance**

6. **Demonstration Plots:** The ABM Office, in conjunction with the FHIA Research and General Services Departments, will seek to interest small farmers (and should high volume be required, other larger farmers as well) through demonstration plots on small farmer lands and at FHIA research stations.
7. **Production Training:** During the initial years of production of the export crops, FHIA staff from the Research and General Services Departments and the ABM Office will provide regular training to producer associations and small farmers, including training in environmentally sound practices.
8. **Production Technical Assistance:** During the initial years of production of the export crops, FHIA staff from the Research and General Services Departments and from the ABM Office will provide regular technical assistance and training to producer associations and small farmers, including training in environmentally sound practices.

9. **Environmental Monitoring:** Environmental monitoring is required of all activities related to production and post-harvest handling in this project. A system of periodic field inspections of crop testing sites and laboratory testing of soils and crops for pesticide residues will be carried out over the life of the project. Evaluation of potential negative impacts on the environment of the production of the crop will be included in the crop profile. Monitoring will be continued to ascertain if there are unforeseen impacts. Remedial actions will be put in place if any significant negative impacts are noted.

### **Post-harvest Handling**

10. **Training and Technical Assistance in Post-Harvest Handling:** FHIA will provide training and technical assistance to farmers in post-harvest handling. FHIA technicians will assist non-commercial small farmers in product grading, quality control standards, and packaging.

### **Trade Promotion**

11. **Trial Shipments:** The ABM Office will send trial shipments to buyers in order to test the marketability of new crops.
12. **Transportation Logistics:** FHIA/ABM will provide overland and maritime transportation to participating small farmers for the export of their crops. These services will be subcontracted.
13. **Pre and Post Inspections:** Pre-shipment and arrival inspection services will be provided by the ABM Office to small farmers. These services will include pesticide residue testing in FHIA laboratories. Arrival inspections will be subcontracted to experts in the destination markets. FHIA/ABM will assist small farmers with verification of payments of goods exported, if requested.
14. **Market Tours and Trade Fairs:** The ABM Office will assist farmers from agricultural producer organizations to attend major agricultural produce exhibitions. Some of these services will be subcontracted.
15. **Export Crops Exhibit:** FHIA will organize three annual exhibitions of Honduran export crops in San Pedro Sula for brokers and buyers.

### **G. Graduation of Services**

FHIA seeks to incorporate small farmers into the production and export of new high value agricultural crops. Given the degree of risk in developing a new export crop, as well as financial, technology, and information limitations, small farmers cannot initially be expected to pay for the costs of producing and exporting a new crop. On the other hand, the project

does not intend to finance indefinitely all these costs. Once small farmers and their producer associations have gone through the entire cycle of production and export at commercial levels, they will no longer be considered disadvantaged. In general, FHIA will subsidize services to participating small farmers only until a crop reaches commercial production levels. Once a crop reaches this level, small farmers will "graduate" and pay for all project services received on a cost or cost-plus-fee basis. Medium and large scale producers, meanwhile, will be charged for all services received under the project on a cost-plus-fee basis from the onset of the project, regardless of whether the crop has reached commercial production levels or is still in the trial stage.

The timing for graduating new crops will vary depending on the crop and the market. Commercial levels will be established for each crop during the development of the initial crop profile that selects the crop for support by the project.

## **H. Sustainability of Project**

The project is to be considered sustainable on two fronts: first, the results of the project will have a lasting impact on small farmer households; and, second, the most essential market research activities will continue within FHIA.

### **1. Sustainability of Project Results**

As noted above, it is expected that at least 3,000 small farmers will be exporting up to 5 new agricultural crops by the end of the project. These men and women will not only have learned what it takes to export a new agricultural crop, but they will also be actual exporters. This will be a lasting benefit to them and their families, the seasonal workers they may employ, and to the Honduran agricultural export base.

### **2. Sustainability of Project Activities**

At the end of the project, the ABM Office will be reduced in size and scope, and will be transferred to the Technical Services Department of FHIA. As such, the ABM Office will retain only five employees after the end of the project: the "Market Research Coordinator" and "Operations Coordinator", two technicians in the market research area, and one secretary. This will reduce the overhead cost of operations and allow the future functions of the office to be fully integrated into the FHIA organization. While the ABM Trade Promotion activities will be discontinued, the important functions of market research and marketing assistance will be retained and will be financially sustainable through the provision of these services on a fee only basis. Since FHIA will no longer be able to subsidize technical assistance and export services to small farmers, FHIA may actively seek resources from other donors to support continued provision of these services.

There is considerable evidence that sufficient fees can be generated to support a small ABM office within FHIA. The export market is growing throughout Central America. While in the

past market studies supporting the nontraditional export sector came from PROEXAG, this project is closing and there is no new source for these services. FHIA's ABM will fill this void. By the third year of project operation, FHIA will be able to evaluate progress toward sustainability and reevaluate the above assumptions. Sufficient time will be left in the project to effect mid-course corrections, should they be required. This having been said, however, FHIA has committed itself to providing the necessary resources from its general budget to ensure the continuation of market research and market assistance services.

In addition, it should be noted that the information infrastructure created by the project will be sustained as an integral research and services function within FHIA after the project ends.

## **V. IMPLEMENTATION ARRANGEMENTS**

### **A. Obligating Instruments**

The funds provided under this project will be obligated through a Handbook 3 Project Agreement with the GOH. The Project Agreement will provide for a Handbook 13 grant to FHIA for implementation of the project.

### **B. Implementing Arrangements**

#### **1. FHIA Management**

The project will be implemented by FHIA through its various departments and coordinated by the FHIA General Manager. The ABM Manager will coordinate all activities related to market research and trade promotion. Other activities under the project, such as production and post-harvest handling training will be coordinated by the General Manager through committees composed of FHIA staff from the ABM Office, and the Departments of Research, General Services, and Communications. The general responsibilities of each of the FHIA departments in the project follows:

The ABM Office will have two sections: Market Research and Operations and Trade Promotion, and a total of 11 persons: the Manager, a Market Research Coordinator, an Operations Coordinator, a data base analyst, a data entry assistant, a computer network technician, a producer relations assistant, an export sales assistant and three support staff.

The Research Department is responsible for all research activities conducted by FHIA. It has several units and programs. The Technical Section houses an economist, a biometrist, and the post-harvest and agronomy units. The department will be principally involved in assisting the ABM Office with market research, developing crop profiles, and post-harvest handling.

The Department of General Services consists principally of the FHIA laboratories. All pesticide, soil and other tests are performed by this department. It will provide or contract all technical assistance to producer associations and farmers.

The Department of Communications will be responsible for organizing all training for small farmers and for developing publications. It will also be responsible for management of the FHIA library, which will include the Market Information Center.

The Administrative Department provides all support activities for FHIA operations. The project will receive support from this department in the areas of accounting, motor pool, guards, personnel, etc.

## **2. Committees**

To ensure coordination within FHIA and with participating farmers and exporters, FHIA plans to establish four distinct committee structures.

The **Oversight Committee** will review implementation plans, annual work plans and budget requests before they are submitted to USAID and the FHIA Board for approval. The Committee will also review project progress on a quarterly basis. It will have three members: from USAID, from the FHIA Board, and from the GOH. The FHIA General Director will be an advisor to this Committee.

The **Nontraditional Export Committee** will be responsible for the identification of priority crops. Members will include: the ABM Manager, the head of the Research Department and the chiefs of the Economics and Post-Harvest sections within this department, the head of the Communications Department, and the FHIA General Director.

The **Advisory Committee** will consist of influential members of the public, experienced exporters, and representatives of small farmer associations. This Committee will meet twice a year to monitor and evaluate project performance and to review crop selection for inclusion in the project.

The **Commodity Committees** (for each selected crop) will consist of farmers, including small farmers, and other parties with an interest in developing a particular export crop. These committees will identify specific problem areas and technical assistance needs, which will then be contracted by FHIA. USAID will participate on the committee as an observer.

## **3. USAID Management**

The Mission's Office of Rural Development will manage this activity. A DH Project Officer will have overall responsibility for monitoring this activity.

At the working level, quarterly project meetings of key project representatives together with the USAID Project Officer will be held for the purpose of assessing the progress of project implementation. Overall project coordination will also take place in periodic meetings of the Advisory Committee, which will be attended by representatives of the GOH, USAID, and other public and private institutions.

### **C. Procurement Plan and Buy America**

USAID will sign a Cooperative Agreement with FHIA to implement project activities. Project-financed goods and services will be procured by FHIA in accordance with their USAID-approved procurement system. USAID will reserve approximately \$175,000 for direct procurement of a USAID Project Assistant and for evaluations. The project will comply with the Agency's rules and procedures for Gray Amendment procurement.

This project has been designed in accordance with the Agency's Buy America Guidance. If during project implementation an activity is proposed that requires a waiver, such waiver will be obtained before proceeding with the transaction.

## **VI. MONITORING AND EVALUATION**

### **A. Monitoring**

Monitoring of project progress will be on-going. Indicators related to participation and project benefits will be gender disaggregated. A monitoring system will be established by FHIA, with assistance from USAID, and will be approved by USAID through a Project Implementation Letter. If it becomes necessary to develop a baseline study of small farmers, USAID will approve the Scope of Work for such a study contracted by FHIA. At this time, it is envisioned that the project will utilize the farmer information baseline studies conducted under the LUPE Project.

In addition to routine monitoring of project progress, project monitoring will pay special attention to the following areas of environmental concern:

- Pesticide contamination in land, water and crops
- Soil erosion
- Deforestation
- Contamination of water resources

FHIA will submit to USAID a detailed environmental monitoring plan within three months of the signing of the Cooperative Agreement.

Costs for environmental monitoring will be primarily for laboratory analysis and paid for by the project by internal transfer to FHIA. Supervision and field sampling will be done by research and outreach staff. FHIA staff will prepare safe handling techniques and other materials for distribution to growers and shippers, with prior written USAID approval of these techniques and materials. It is envisioned that some of the technical assistance required will be contracted from the Pan American Agricultural School in Zamorano.

## **B. Reports**

FHIA will submit to the USAID/Honduras Project Officer a quarterly report on project progress. This report will include quantitative data, related to project targets, as well as a narrative of project accomplishments and project delays during the previous quarter.

## **C. External Evaluations**

An external evaluation is scheduled for early in CY 1997. Evaluators will work primarily from project design documents, progress reports, and other periodic project reports. The evaluators will visit representative field operations and interview project implementors and farmers. The evaluation will be contracted by FHIA. USAID will approve the evaluation Scope of Work before the contracting of the evaluation team and will approve the final report before payment by FHIA to the contractor. The evaluation data will be gender disaggregated.

## **D. Audits**

The project will be externally audited annually by a firm acceptable to USAID and FHIA. This audit will be conducted as required by USAID regulations and directives and FHIA's international regulations.

# **VII. ANALYTICAL CONSIDERATIONS**

## **A. Economic Analysis**

Using an illustrative sample of five potential export crops that could be produced by small farmers, the Economic Analysis of the project estimates that small farmer incomes could double over the life of project from their present annual average of \$290. Using a 15 year benefit stream, and assuming that 3,000 small farmers from the target group adopt the technology, an internal rate of return of over 20% would therefore be obtained. Such a return suggests that the project is well worth undertaking.

While medium and large farmers are not the target group of this project, they too will accrue gains from the project. In addition, a second round multiplier effect will be produced by the small, medium and large farmers spending their monies in the communities in which they reside, purchasing consumer goods and productive sector inputs, with these purchases in turn producing additional income and employment for others.

The Economic Analysis also estimates that by 1999 the project will be producing approximately \$5 million per annum in much needed foreign exchange for the Honduran economy, with similar gains in subsequent years. The Economic Analysis is attached as ANNEX IV to this PP.

## **B. Social Soundness Analysis**

The project's Social Soundness Analysis, **ANNEX D of the Expanded Project Description**, indicates that the target population consists of small farmers with land holdings up to 10 hectares.<sup>1</sup> The overwhelming majority of Honduran farmers fall within this classification. Approximately 3,000 of these small farmers, which were previously not exporters, will be exporting by the end of the project, and will have created 6,000 seasonal jobs by the last year of the project. It is expected that at least 210 of these small farmers will be women and that 60% of the seasonal jobs will be held by poor rural women. FHIA will ensure that all participating small farmers abide by the Honduran Labor Code in their employment of laborers.

FHIA will need to develop special strategies to reach the few female heads of households who fall within the up to 10 hectare classification. FHIA will also need to make special efforts to reach the wives of male heads of household, who will be actively participating in the production and harvesting of export crops, as well as in the domestic marketing of products that do not meet the export market's requirements.

The indirect beneficiaries of the project will be the communities in which the nontraditional exports are produced and the general population which will have access to a larger variety of fruits and vegetables of non-exportable quality which are sold in domestic markets.

## **C. Institutional Analysis**

The Institutional Analysis of the project, **ANNEX B of the Expanded Project Description**, concludes that given that FHIA is a mature research organization with 10 years of technical and managerial experience, well structured and staffed support departments, and businesslike operational systems and reporting procedures, FHIA is capable of undertaking the project.

## **D. Environmental Threshold Determination**

The Initial Environmental Examination (IEE) for the SFED project recommended a negative determination (i.e. no further environmental evaluation required). The LAC Environmental Officer in USAID/W concurred with the Mission's recommendation for a negative determination. The IEE is attached as **ANNEX VI to this PP**.

Pesticides and other agricultural chemicals will be provided as research inputs on a case-by-case basis when justification is provided by FHIA; for example, when the product is not available in Honduras due to the experimental nature of the crop. In these cases, FHIA will request USAID's written permission for these special inputs to be purchased by the project.

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<sup>1</sup> While the Expanded Project Description and its annexes originally identified the target population as small farmers with up to 5 hectares of land, a technical analysis by the Office of Rural Development indicates that small farmers with less productive land may need up to 10 hectares in order to achieve sufficient production for export.

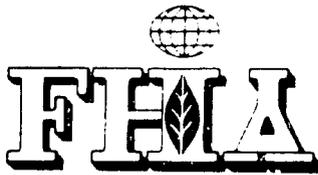
**E. Financial Analysis**

The Financial Analysis of the project suggests that the activities under the project are financially viable during and after the life of the project and that the project as designed is financially sound. The Financial Analysis is attached as ANNEX VII to this PP.

**F. Logical Framework**

The Logical Framework is attached as ANNEX III to this PP.

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**FUNDACION HONDUREÑA DE INVESTIGACION AGRICOLA**

**SMALL FARMER EXPORT DEVELOPMENT PROJECT PROPOSAL**

Submitted by:  
Fundación Hondureña de Investigación Agrícola (FHIA)

To:  
U.S. Agency for International Development/Honduras

September 1994

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2/1/94

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### ANNEXES

- ANNEX A - Financial Plan
- ANNEX B - Institution Analysis
- ANNEX C - Monitoring and Evaluation Plan
- ANNEX D - Social Soundness Analysis

## SMALL FARMER EXPORT DEVELOPMENT

### I. SUMMARY

The Small Farmer Export Development Project (522-0399) is designed to develop agricultural export crops and mechanisms that are appropriate for smallholder farmer participation and which lead to increases in smallholder farmer incomes. This project consists of two activities: Market Research and Trade Promotion.

FHIA proposes to establish an Agribusiness and Marketing Office (ABM) within its existing structure to assist smallholder farmers in undertaking the production and export of new crops. This office will provide (1) market research information and trade promotion services to smallholder producers and exporters of nontraditional horticultural crops and (2) market intelligence for use by FHIA in establishing its crop research priorities.

The project will have a four year life of project, beginning in late calendar year (CY) 1994 and ending in CY 1998. The estimated total cost of this project is approximately \$3.37 million. USAID will contribute \$2.5 million in grant funds and the Fundación Hondureña de Investigación Agrícola (FHIA) will contribute the local currency equivalent of \$867,000. USAID will contribute approximately \$140,000 for capital equipment (vehicles, office furniture equipment), \$1.5 million for operating expenses (primarily salaries), \$500,000 for services to clients, \$100,000 for training, and \$260,000 for evaluations, audits and USAID project management. FHIA will contribute \$35,000 for capital equipment, \$240,000 for land and facilities, \$520,000 for operating costs, \$37,000 for training, \$20,000 for services, and \$15,000 for contingencies.

### II. BACKGROUND AND PROJECT RATIONALE

#### A. Background

Honduras with a population of 5.4 million, is one of the poorest countries in the Western Hemisphere. It is estimated that 70% of the population lives under the poverty line. Although it has made great strides toward improving its general development in recent years, economic growth has been sluggish and social indicators (literacy, life expectancy, etc) and poverty levels remain alarmingly high. Despite efforts to diversify the economic base of the country, Honduras remains a predominantly agricultural economy with well over 50 percent of the population still identified as rural. The agricultural sector provides the highest proportion of employment to the economically active population, though this is declining. The principal exports of Honduras are banana and coffee, accounting during 1993 for 45 percent of total exports and 60 percent of agricultural exports. If it hopes to improve the standard of living of the rural poor, Honduras must strive to further diversify its

agricultural base. This project seeks to involve small farmers in the development of non-traditional agricultural crops to increase their incomes and diversify and expand Honduran exports.

### **1. Brief History of FHIA**

FHIA was established in 1984 with \$20 million provided through the USAID Agricultural Research Foundation Project (522-0249). The goal of ARFP was to increase employment and farm income in the rural sector. Its purpose was to establish FHIA to (1) conduct agricultural research on traditional and nontraditional export crops and basic food crops; (2) disseminate research findings through communication programs and carry out institutional strengthening of producer organizations and exporters; and (3) continue the laboratory testing services initiated by United Brands.

A final evaluation carried out in 1994 concluded that FHIA had developed into a mature, viable research organization with an international outlook, had met or exceeded most goals and targets, and was adequately funded at its current level of activity.

### **2. Brief History of USAID Nontraditional Export Support**

Under the Export Development and Services Project (EDS) (522-0207) the Federación de Productores y Exportadores Agrícolas de Honduras (FPX) was founded in 1990. It grew out of a previous EDS supported export organization, the Federación de Asociaciones de Exportadores Agrícolas y Agroindustriales de Honduras (FEPROEXAAH), which began in 1984. FEPROEXAAH was formed to develop nontraditional agricultural exports through private bank loans and the provision of technical assistance. After a restructuring of the organization in 1988, FEPROEXAAH began opening up its membership to private companies and associations. In 1990, FEPROEXAAH became what is now known as FPX.

FPX provides technical assistance to Honduran agricultural exporters -- from post-harvest assistance to commercialization. Occasionally, FPX also assists with production if the growing technology is not available in the country. With assistance from FPX, the melon and shrimp export sectors have successfully matured. Other crops under development include cocoa, cashews, squash, plantains, and tilapia. This activity, while successful, has not addressed the smallholder farmer's needs in nontraditional agricultural export. The primary recipients were larger farmers with considerable resources available to produce crops requiring large scale investments and exports in quantity.

## **B. PROBLEM SUMMARY**

Honduran smallholder farmers (farmers with two to five hectares of farm land) have been at a disadvantage in the production and export of nontraditional crops for three key reasons: (1) lack of experience, financial resources and technical expertise in the production and export of new crops; (2) limited acceptance in the local market and lack of initial support by producer groups or major importers for new crops; and (3) high marketing costs for smallholder farmers due to economies of scale for storage, transport, and infrastructure.

## **III. PROJECT DESCRIPTION**

### **A. Project Goal and Purpose**

The Goal of the project is to increase income to the disadvantaged. The Purpose is to develop agricultural export crops and mechanisms that are appropriate for smallholder farmer participation and which lead to increases in smallholder farmer incomes.

### **B. Project Description**

Successful production and export of new crops require four main inputs: marketing research, crop research, crop production and trade promotion. To date, FHIA has provided assistance to the Honduran grower in the areas of crop research and production, but has lacked the expertise to provide services to Honduran farmers in market research and trade promotion. Under the project, FHIA will develop the required expertise to provide these services. While the project will focus its efforts on the smallholder farmer, medium and large farmers will also receive these services, if requested.

FHIA will address the following constraints affecting smallholder participation in the production and marketing of export crops:

- **Constraint: Smallholder farmers lack the experience, financial resources and technical expertise required for the production and export of new crops.** To address this constraint, FHIA will (1) provide smallholder farmers with technical assistance in marketing, crop production, quality control and post-harvest logistics at no cost during the pre-commercial phase of crop production; (2) financially assist smallholder farmers by assuming some of the costs and financial risk associated with trial shipments of new crops; and, (3) facilitate the provision of credit to smallholder farmers by bringing smallholder farmers together with other USAID supported rural credit organizations such as agricultural credit unions, and by acting as an agent for these smallholder farmers with other credit sources such as brokers or larger farmers who may be willing to advance credit to smallholder farmers knowing that they are involved with

FHIA.

- **Constraint:** New crops normally have only limited acceptance in the local market and initially will not have the support of producer groups or major importers. While new crops initially present a higher risk in marketing the product locally, the relatively small scale of production of these crops by smallholder farmers will allow time to define and develop local and regional markets. In addition, while major importers prefer to deal with established farmers or producer organizations for consistency of product and supply volumes, it is expected that they will be open to working with new producers of highly desirable crops who are associated with a respected organization such as FHIA.

- **Constraint:** Marketing costs may be higher for small farmers because of economies of scale for storage, transport, and infrastructure. The issue of economies of scale will be considered during the phase of new crop identification. Good market research includes the identification of the source of storage, transport and other required infrastructure. There are growing sources of this support in Honduras. Many large producers have excess capacity and have been open to allowing smallholder producers access to this excess capacity. Several agricultural cooperatives also have support infrastructure in place. There is a small but growing processing industry developing in Honduras as well. This processing industry may absorb some of the production of certain crops.

## 1. Project Activities

The strategy of the project is to establish within FHIA an Agribusiness and Marketing (ABM) Office. The ABM will have two sections: (1) Market Research and (2) Trade Promotion. The ABM will have a General Manager who will be responsible for overseeing the operations of both sections. The ABM General Manager will be assisted by two section coordinators, one for Market Research and one for Trade Promotion. Once fully staffed and implemented, the ABM will consist of three managerial/technical staff overseeing five specialists and three office support staff, for a total of eleven positions.

### a. Market Research Section

The Market Research Section will provide market information and training services to smallholders, medium and large scale growers, other research institutions and the GOH in the areas of market studies, crop profiles, price information, grower/broker matching, verification of broker payments to growers, marketing training, publications and market promotion activities.

**Market Studies:** Market studies will consist of an integrated package of analyses of market windows (e.g., demand and supply of the crop regionally and worldwide); the

quantities and quality of product required; price histories, to identify price trends and to assess risk; potential brokers/buyers of the product; packaging requirements; shipping points of destination; available overland and maritime transportation; and an assessment of present and future competition from other growers. The marketing information produced by the ABM in these market studies will be used to identify potential new crops for crop research by FHIA and subsequent production and export of these crops by smallholder farmers.

**Crop Profiles:** Once market studies have been carried out for the five or six high priority crops selected under the project, the ABM will develop crop profiles for each of these crops. The crop profiles will include the market study; a crop research plan; an analysis of where in Honduras the crop can be grown; agricultural inputs required; market promotion activities (local, regional and international); technical assistance and training required; an analysis of when the crop might reasonably be expected to reach commercial levels; trial or pre-commercial shipments anticipated; a complete budget of all costs; and environmental considerations and monitoring. Once completed, the crop profile for each crop will be sent to the Advisory Committee for review and approval. If approved, the life of project Implementation and annual Work Plans (described in Section V.A.1. below) will be amended to incorporate these crop profiles.

**Price Information:** While historical price trends will be part of the market studies described above, smallholder growers will also require information on prices for specific crops at specific destinations (e.g. Miami, New York, Amsterdam) and at specific times of the year, over the previous three to five year period in order to accurately assess risk. In addition, daily prices quotations will be needed during the last three weeks prior to shipment. Therefore, during the main export season the Marketing Research Section will manage an information hotline to advise producers of prices, price trends, and supply and demand trends in major markets for targeted new crops. Smallholders without access to telephones will have this information relayed to them by other means (whenever possible, radio will be used).

To the extent possible, the project will also monitor prices of target new crops in regional markets, which represent proven outlets for Honduran produce. This information will be distributed to producers regularly. In addition, FHIA field staff, existing producer groups, cooperatives or other groups will receive current market news for smallholders. This information will assist smallholder and other farmers to respond to changing market conditions, thereby reducing the financial risk to these farmers of producing new export crops.

**Grower/Broker Matching and Verification of Broker Payments to Growers:** The Market Research Section will maintain communications with brokers and seek to establish commercial linkages between them and Honduran growers. As an information center, the Market Research Section will develop a directory of regional buyers and attempt

to profile their needs in terms of volumes purchased, preferred varieties of purchase, payment performance, preferred packaging, and related concerns. In addition, verification of broker payments to smallholder growers will be provided, if requested.

**Marketing Training:** Training will be provided to participating farmers in market analysis, market windows, price trends, planning, brokers/importers identification, and risk analysis.

**Publications:** The Market Research Section will also assist the Gerencia de Comunicaciones to produce a regular series of updated reports on targeted new crops containing information on prices and price trends in major markets (local, regional, and international), competitor behavior, and regulations and trade. Taken as a whole, these reports will meet the research needs of producer and buyer target crops. A monthly bulletin will be mailed to a targeted list of receivers within these communities, the GOH, and to the research and investment promotion communities.

**Market Promotion Activities:** These will consist of promoting relationships between brokers/importers (i.e. information to brokers/importers on what products Honduras can produce, and information to Honduran growers on which brokers/importers are available for specific crops). In addition, the project will provide reports on the results of trial shipments and their special inspections, and information on agricultural exhibitions and trade shows.

Many activities in the Market Research Section will be backward integrated with other departments in FHIA to generate marketing information linked to other relevant information produced in different departments. The idea is that the ABM, together with the Gerencia de Comunicaciones, will draw upon and help to organize the production of a standardized series of reports that will integrate research, production, and marketing information. For example, FHIA's Economics Office will write research reports that detail cost analyses by crop, potential returns to farmers, sector analyses, and other information under the category labeled "comparative variables" in the proposed crop selection matrix.

In addition, reports will be written by the ABM together with the Gerencia de Comunicaciones that address the competitive dimension of nontraditional export crop production. For example, reports will examine technology packages, the local ability of small and large holder farmers to produce for market windows, post-harvest handling techniques, plant nutrition, plant varieties, pesticide use, environmental impacts and other information. The ABM will draw on reports that are already produced by other departments within FHIA, sometimes modifying them to meet market-oriented needs.

The above activities will, in operational terms, forge linkages and enhance communications between ABM and other departments within FHIA, and between

FHIA and the smallholder and other producers and exporters of nontraditional agricultural produce from Honduras, thereby helping expand FHIA's internal research capability and make the research more responsive to Honduran needs by identifying market openings and niches, and export crop quality requirements for local, national and international markets.

FHIA/ABM will become a member of the United Fresh Fruit and Vegetable Association and the Produce Marketing Association in the United States, and with other associations in Europe. Associations are an invaluable source of a wide range of information on regulatory issues, policy, and related areas. Trade conferences also will represent an important source of information for FHIA/ABM.

(1) Crop Selection and Elimination Methodology. FHIA will employ a methodology that provides for a transparent process of crop selection and elimination.

(a) Elimination Criteria: Four factors will be considered as elimination criteria:

(i) Market opportunity. No crop can be selected if there is no clear and demonstrable economic opportunity identified through market research.

(ii) Applicability to smallholder farmers. Any crop that is selected must be appropriate for smallholder farmer production and export. This does not preclude mid- and large farmers from participating in market openings in the same crops as well.

(iii) Sustainability. The crop must be technologically, financially and culturally sustainable in the conditions of Honduras.

(iv) Environmental factors. The crop cannot lead to a reduction in biodiversity, increased deforestation, or other environmental degradations of a significant nature.

Any one of the above factors could preclude selection of a crop for inclusion in the program.

(b) Selection Criteria: In addition to the elimination criteria above, four broad categories of selection criteria will be used: comparative variables, competitive variables, social variables, and regulatory variables. The variables within these categories are not intended to be fixed; nor are the categories. FHIA will assign weights to the categories and the variables they contain to achieve a transparent selection process. The weights would reflect the priorities which FHIA attaches to the respective categories/variables. For example, if a market-driven approach is favored, then the "competitive variables" category would be assigned a higher weight than all

other categories of variables. And within that category of variables, sales to export markets might be deemed more important than sales to the local market, and so weights would be assigned accordingly.

The eventual portfolio of export crops targeted for integrated research-production-marketing support by FHIA will include a combination of weighting preferences for major categories. That is, one product may be selected because of highly favorable social criteria, whereas another may be targeted because of favorable comparative advantages. However, all selected products must share strong competitive characteristics, in line with the market orientation of the ABM. Of course other qualitative variables will have to be considered when deciding upon the mix of products to be selected (e.g., a mix of short cycle and perennial crops; high value and traditional products; marketing to a range of target markets in the United States, Europe, and elsewhere; and crops suitable to smallholder farmers and commercial producers).

Using this selection methodology, around 15 potential crops will be identified within the first six months after inception of the project. This list will be narrowed down to five or six key crops through a "crop selection workshop". These crops will then have "crop profiles" prepared with extensive discussion of the selection criteria, a proposed plan for research, a marketing plan including planned trial shipments, an environmental monitoring plan, and an estimated commercial production date. These profiles will be presented to the Advisory Committee (see Section III.B.3.c. below for a more detailed discussion of the functions of the Advisory Committee) for their review and counsel. After all considerations are made, the FHIA General Director will authorize the final crops. These crop profiles will then be included in the Implementation Plan and annual Work Plans for USAID approval.

While the research focus will be on these five or six new crops, the ABM's research pipeline will have to manage a larger number of crops to be able to introduce new ones as conditions change (either because the product is graduated from FHIA's research agenda, or because market conditions become unfavorable, or both.) Evaluation of the crops will include environmental consideration of agricultural chemical use and soil protection, and will be evaluated for production sustainability.

#### b. Trade Promotion Section

The Trade Promotion Section will focus on providing **logistic and other support services** to exporters of nontraditional crops. This section will take special care to extend this support to smallholder farmers. It will provide the initial vertical linkages between producers/exporters and post-harvest marketing activities. Services that will be provided include transportation logistics, packaging requirements, quality control, inspections, and market tours and exhibitions. Most of these services will be subcontracted out by FHIA to providers of these services.

**Transportation Logistics:** The project will provide overland and maritime transportation logistics services to participating farmers for the export of their crops.

**Packaging Requirements:** Technical assistance in packaging requirements for specific crops will be provided to smallholder and other farmers.

**Quality Control:** The project will provide technical assistance to smallholder and other farmers in meeting quality control requirements of targeted markets.

**Inspections:** Pre-shipment and arrival inspection services will be provided to smallholder and other farmers participating in the project. These services will include pesticide residue testing.

**Market Tours and Exhibitions:** The project will assist farmers from agricultural organizations and groups to attend major agricultural produce exhibitions and trade shows (e.g. Miami, New York and Europe). The purpose of this assistance will be to promote contacts between Honduran growers and brokers/importers. The project may choose to co-finance smallholder producer participation in trade shows if the smallholder product is supported by a producer group prepared to help pay. In addition, the project will promote an exhibition of Honduran agricultural products to promote Honduran products to local, regional and international brokers/importers.

While some of the above services may be provided separately to smallholder and other farmers (e.g. a farmer may request inspection services in the U.S. for the first shipment of a new crop), it is expected that most of these services will be provided as a package for trial and pre-commercial shipments by farmers.

As part of its export promotion program, the ABM's Trade Promotion Section may wholly or partially undertake trial shipments or initial pre-commercial shipments to the market. The ABM will also pay for those activities that relate to the experimental nature of smallholder farmer trial shipments such as unusual inspections, trial containers, or special post-harvest monitoring equipment. Except for smallholder farmers, all participants in the trial and initial pre-commercial shipments will pay for the services received on a cost-plus-fee basis.

All trial and pre-commercial shipments will be fully documented and planned including projected financial risks to the project, and approved by the Advisory Committee, the General Director of FHIA, and USAID before the initiation of the shipments. The results of these trials will be summarized in each periodic project report to the Director General and the Advisory Committee. Copies will be sent to USAID.

The level of ABM's involvement with trial and pre-commercial shipments will be different for each crop and grower, but will generally follow three basic designs:

- **ABM Trial Shipment.** Initial shipments used to test the marketability of new crops generally result in no income. The product is closely monitored and usually given to prospective buyers as samples. The ABM will find it necessary to take many, but not all, potential export crops completely through the steps of production, packing, and export to evaluate the shipping system and to generate interest in and prove the quality and market potential of the crop. In this case, the ABM will bear all of the associated costs of the venture and will recover any of the financial returns to help defray expenses. Smallholders will be compensated at least equal to what they would have made growing a traditional crop on their land. This mechanism will usually apply only to the first two or three shipments of the product. This does not mean, in any way, that the ABM has invested, or will invest in the future, in the production and export of this crop. USAID will approve all such shipments before their initiation in annual work plans. This is only a promotion vehicle -- nothing else.

- **Grower/Exporter Trial Shipment.** This is the preferred model for trial shipments and will entail some intermediation by ABM and a slight financial risk to the project. In this scenario, the ABM would give substantial technical assistance (planting, production, pest control, packaging, etc.) to the grower in all of the steps leading to export. When it is time to send a trial shipment to test the market, the ABM might guarantee or underwrite any or all of the out of pocket costs involved in the export of the product for the smallholder (e.g., pay the transportation costs of a pre-determined number of shipments). If the sale results in an excess income over the cost of the shipment, the grower only will receive the profit after all ABM costs have been reimbursed. In some instances, the ABM will arrange with the receiver/seller to have the initial liquidations handled through the ABM to ensure that these costs are recovered. Although this type of trial shipment may be used with several smallholder grower/exporters for a specific crop, it will be used only once for each smallholder grower/exporter.

- **Grower/Exporter Pre-Commercial Shipment.** Those crops for which there are adequate information and experience of cultivation in Central America must be planted commercially or semi-commercially as soon as possible -- preferably in the first year of the project. In this case, the ABM will give continuous technical and business assistance to the smallholder grower/exporter without charge from the beginning of the crop cycle, and will continue to do so through the packing and export phases. As in the example of grower/exporter trial shipments, above, the ABM may function as a catalyst and provide buffering for the initial pre-commercial shipments of the product by underwriting the transportation and handling costs of a pre-determined number of shipments from smallholders. One way to do this would be for the ABM to arrange to pay shipping lines directly for shipments; another way would be for the ABM to pay receivers/sellers directly based on a quoted or billed transportation rate. In either case, if profits are gained from the sale, the ABM would be repaid before any payments are made to the smallholder grower/exporter. If there is a loss on the sale, as previously agreed upon by ABM and the smallholder

grower/exporter, part of the guarantee money would be given to the smallholder grower/exporter to cover losses. This condition would apply only to initial shipments underwritten by ABM.

c. Integration of ABM Activities with FHIA Research Functions

Under the project, FHIA's crop research will be guided by the market considerations mentioned above. The research focus will be on new crops and mechanisms which have the greatest agronomic and market potential, are appropriate for smallholder farmer participation, and which lead to increases in smallholder farmer incomes. Technology development will be spread across a wider range of products (rather than just the five or six most favorable products), to diversify risk and maintain a rich pipeline of research activities. Research and field trials will be spread across a range of products. Some crops, such as asparagus, mangos, and palm hearts, have already been researched at FHIA and the technology for these is understood. Consequently, field trials of these crops may be expected to start early in the life of the project. Other crops that have not been previously produced in Honduras but for which both agronomic and market conditions are favorable will receive priority attention in applied research and field trials once the proper variety has been identified and associated issues of pest control and other variables of the technology package have been established.

The project will emphasize cultivation techniques using integrated pest management, soil improvement, proper water use, and occupational safety and environmental controls for use of irrigation, pesticides and other chemicals, and other production inputs.

The portfolio of priority products will include annual and perennial crops, high value crops, and crops that have potential in differing mixes of markets (i.e., local, regional, and international). The project will give special attention to technology oriented toward the emphasizing by smallholders of environmental concerns in the cultivation of the crops.

FHIA has a strong tradition of using on-farm research as a vehicle for technology transfer. On-farm research simplifies technology transfer and should allow FHIA to bring new crops to trial shipment as rapidly as possible. Additionally, the project will establish linkages with USAID-financed LUPE project and local NGOs that already have contact and engage in extension activities with smallholder farmers.

The project will support a series of visits by FHIA technicians and other well-established scientists and producers of those crops to places where targeted new crops are grown. These visits will be complemented by visits of import brokers from target markets. It is envisioned that the Commodity Committees discussed elsewhere in this proposal will be the vehicles for coordinating technology development and

market considerations. FHIA's research agenda in new crops will change as a new crop is successfully absorbed by producers and reaches commercial levels. This will probably occur when a new crop develops the support of a producer group (such as the one which supports melons in Costa Rica, to cite a regional example.) Any technical assistance provided to smallholders after this time will be undertaken on a cost-plus-fee basis, per the current practice at FHIA.

In addition to the above, the project will promote the sale of project crops in local markets, and actively encourage local supermarkets to set up special sections in the fresh vegetable section to feature these products at premium prices. Honduran processing companies such as ice cream makers, jelly producers, and others will be informed on the quality and quantity of the products produced by the participants of the project.

## 2. Graduation of Services.

The ABM will utilize a system of "graduation of services" for all market research and trade promotion services provided to smallholder and other farmers under the project. Payment by these farmers for services received will be based on this system, as shown below:

### a. Market Research Services

(1) Internal Services: The cost of all market research services provided to FHIA's internal research divisions will be reimbursed to the ABM out of FHIA's operating budget.

(2) External Services: Market research services provided to farmers will be charged based on (1) whether the services are provided for a crop that is in the pre-commercial or commercial stage of production; and, (2) whether the services are for participating smallholder farmers, or for medium and large scale farmers and other clients.

Below is a chart showing the services that will be provided to internal and external clients, identifying which clients will pay for the services received during the project:

**CHART 1**

Stage	Market Research		Trade Promotion	
	Payment for Services		Payment for Services	
	Smallholders	Others	Smallholders	Others
Pre-Commercial				
- LOP	NO	YES	NO	YES
- Post PACD	YES	YES	N/A <sup>1/</sup>	N/A <sup>1/</sup>
Commercial				
- LOP	YES	YES	YES <sup>2/</sup>	YES <sup>2/</sup>
- Post PACD	YES	YES	N/A <sup>1/</sup>	N/A <sup>1/</sup>
<u>Sustainability</u>	YES	YES	NO	NO

<sup>1/</sup> These services will not be available from the ABM after the end of the project.

<sup>2/</sup> It is uncertain whether potential clients for these services would pay a higher cost to receive them from the ABM when they could directly contract with the providers of these services at a lower cost.

The process of organizing smallholder producers of new crops and bringing production up to commercial standards and volumes implies providing services that cannot be initially paid by smallholders. While commercial levels vary for each crop, in general a crop for which there exists a viable producers' group, steady, profitable sales will be considered as having reached commercial levels of production. Therefore, the level of production and sales that will be required before a crop is considered to have reached commercial levels and project beneficiaries will be "graduated" will be established for each crop during the development of the initial crop profile that selects the crop for support by the project. Once a crop has "graduated" to commercial levels, any support provided by the ABM will be billed on a cost-plus-fee basis, as is currently done when providing assistance to melon growers, for example.

(3) Pre-Commercial Production

(a) Smallholder farmers: Undertaking production of a new crop requires substantial technical assistance, capital investment and risk that smallholder farmers are ill equipped to pay for initially. Smallholder farmers, therefore, will receive all market research services from the ABM during the pre-commercial phase of crop production at no cost to them.

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(b) Other Clients: All other clients will be charged for all marketing services received during the pre-commercial stage on a cost-plus-fee basis.

#### (4) Commercial Production

(a) Smallholder farmers: Once a crop has reached commercial levels, smallholder farmers participating in the production and export of this crop will be able, usually through their associations, to pay for the cost of the market research services received under the project. Therefore, once a crop reaches commercial levels, as described above, smallholders will be required - like everyone else - to pay for these services on a cost-plus-fee basis.

(b) Other clients: All other clients will pay for all market research services on a cost-plus-fee basis during both the pre-commercial and commercial stages of crop production.

The Market Research Section will provide services in the areas of market studies, price information, identification of brokers and importers, etc., for which there are presently few if any other providers in Honduras and the rest of Central America. The PROEXAG project, based in Guatemala, which used to provide many of these services at no cost to interested growers, will end this year. FPX has always relied on PROEXAG to provide these services, which FPX then passed on to its clients at a modest fee. While it is expected that eventually other groups and individuals (for example, brokers and importers) will begin providing these services directly to growers once a crop reaches commercial levels of production, obviating FHIA's role as a provider of these services for those crops, FHIA will continue to fill a need for these types of services for the new crops that will periodically enter the research and production stages.

#### b. Trade Promotion Services

All Trade Promotion services will be for external clients only, who will be charged for these services under the same system as that outlined for market research services, as follows:

##### (1) Pre-Commercial Production

(a) Smallholder farmers: Given the risk and high cost of production of new crops, smallholders will receive all trade promotion services on a no-cost basis during the pre-commercial stage of production.

(b) Other clients: All other clients will be charged for all trade promotion services received under the project during the pre-commercial stage on a cost-plus-fee basis.

## (2) Commercial Production

Once a crop reaches commercial levels, both smallholder farmers and all other clients will be required to pay for all trade promotion services received on a cost-plus-fee basis. It is expected that once a crop reaches commercial levels, brokers and importers will provide many of these services (U.S. inspections, for example) directly to smallholder farmers, through their associations, and to medium and large scale farmers. This will obviate the need for the ABM to continue to provide these services. While the ABM will provide these services if so requested, it is unknown whether either smallholder farmers or other clients will be willing to contract for these services from the ABM if the same services become available directly from the suppliers at a lower cost.

In all aspects of the work undertaken by ABM, the idea will be to eventually devolve all services to commercial interests, thus allowing FHIA the flexibility to move "old" products out of its operational pipeline and to bring "new" products in.

### 3. Project Technical Committees

#### a. Oversight Committee

This Committee will have one member from USAID, one member from the FHIA Board of Directors, and one member from the GOH. The FHIA General Director will be an advisor to this Committee. The Committee will review implementation plans, annual work plans, and budget requests before submitting them to USAID and the FHIA Board of Directors for approval. The Committee will also review the operations of the project on a quarterly basis and advise on delays and problems.

#### b. Nontraditional Export Committee

The project will establish an internal FHIA committee identified as the "Nontraditional Export Committee." This committee will be initially responsible for the identification of the priority crops identified through intra-functional and marketing operational decisions and activities for each new crop development program. The committee will be formally installed by the General Director of FHIA and will have defined mechanisms to ease communication, reporting, and monitoring of decisions and actions. The ABM General Manager, helped by the coordinator of the Trade Promotion Section, will be responsible for the coordination and facilitation of the committee meetings. Each of its members, however, will be responsible for the implementation of the actions of their operational or functional departments.

The Committee will have as permanent members: the ABM General Manager, the heads of the Dirección de Investigación and the Gerencia de Comunicaciones, and the heads of the Economía and Poscosecha Unidades in the Dirección de Investigación.

The FHIA General Director will chair the committee and will be responsible for directing all the committee meetings when strategic and programmatic issues are discussed and decided. This person will also provide general oversight and technical support to the committee members. In addition, FHIA researchers in charge of the different crops under development or any other participating research program or researcher, will be active members in this committee.

Committee meetings will be required for general strategic and programmatic discussions, decisions, and evaluations. These meetings will follow a regular format or agenda and will be conducted to expedite discussions and decisions.

The ABM General Manager will act also as secretary, and will keep track of the technical documentation and committee decisions. The Gerencia de Comunicaciones manager will release executive summary reports, including tasks assigned to each participant.

#### c. Advisory Committee

FHIA will also establish an Advisory Committee consisting of influential and experienced exporters, growers, representatives of smallholder farmer agricultural cooperatives, and business owners. At least one member will be a member of FHIA's Administrative Board. These members will be recruited and appointed by FHIA's General Director and will serve voluntarily. USAID will participate on the Committee as an observer. The Committee will review the new crop profiles prepared by the Nontraditional Export Committee and advise the General Director on the completeness and appropriateness of the individual crop selections. In addition, the Advisory Committee may advise on strategic issues such as additional crop selection, external contacts, provision of technical assistance, and fee levels. This Committee will meet at least twice a year to monitor and evaluate project implementation and performance.

#### d. Commodity Committees

In addition, FHIA will provide assistance to farmers to establish and operate "Commodity Committees" (where the word commodity will be substituted by the crop's name, i.e., onion, asparagus, rambutan). Each Committee will consist of farmers and other parties with an interest in developing a particular exportable product. Smallholders will actively participate on the Committees. USAID will participate on the Committee as an observer. The Committee will act as a channel and clearinghouse between farmers and markets during the development process and will determine support activities and identify technical assistance needs. ABM, in collaboration with other entities in FHIA, will then contract consultants to address the identified specific problem areas.

## 4. Technical Assistance and Training

### a. Technical Assistance

Many, if not most, of the activities of the Trade Promotion Section will be contracted out by FHIA to third-party providers. Initial short-term technical assistance experts will help identify potential providers of these trade services. Some services, such as arrival inspections in Miami, will be contracted out on a seasonal basis to FPX's Miami office or other providers of similar services.

Technical assistance services will include: transportation logistics; packaging requirements; pre-shipment and arrival inspections; pesticide residue testing; intermediation and resolution of phytosanitary/quarantine problems on an as-needed basis; and assistance to growers in understanding and resolving Perishable Agricultural Commodity Act (PACA) claims.

### b. Training

All training and all other services provided under the project, will search for and use mechanisms that encourage women to participate. All records on training provided to USAID will be disaggregated to show the gender of persons receiving the training. Training will occur through a combination of five delivery mechanisms:

(1) Basic ABM staff training, including:

- Attendance at industry trade fairs
- Start-up training, such as hiring a consultant to lead the one-week crop selection workshop
- Training on concept and management of the Commodity Price Database

(2) Outside consultants who will, as an integral part of their technology transfer, deliver seminars on subjects such as sustainable agriculture, labor law, environmental analysis and monitoring, integrated pest management and crop-specific production practices.

(3) Outreach training provided by ABM staff and other groups (such as LUPE) to train farmers and exporters via field visits and seminars, as discussed in more detail below.

(4) Management training programs (for example, "How to Export") for the NTAE sector subcontracted out to professional trainers and marketed as an at-cost program.

(5) Subcontracts for training and implementation on various subjects, such as how to use pesticides safely. These subcontracts may include institutions such as EPA.

(6) Extensive training on environmental concerns and effects of improper farming methods, including pesticide application and monitoring, will be provided to smallholder farmers participating in the project. This training may also be provided to researchers, exporters and other individuals and institutions on a cost-plus-fee basis. These activities will be complemented by FHIA's current training programs, which the ABM will access on a cost transfer basis.

As noted above, farmer training in new crop technology will use on-farm research techniques. New crops will be introduced via FHIA's traditional approach of field demonstrations. Distribution of field trial results will occur through a series of on-farm demonstrations, newsletters, articles, interviews in the media (including radio), seminars, and workshops. Where organizations such as LUPE have in place well-developed extension systems, the project will use these. All environmental information events will provide an integrated package of research/production/marketing information, as described elsewhere in this proposal.

For example, when growers are invited to an on-farm demonstration, they will receive information on growing and marketing a product. Smallholders, particularly women farmers, and medium and large scale farmers, will be invited. For high priority new crops, FHIA may choose to look outside Honduras and recruit a buyer or broker to discuss market requirements. An added advantage of bringing in brokers of target crops is the creation of possible linkages leading to investment and technology transfer. These demonstrations will be provided at cost to smallholders, and on a cost-plus-fee basis for all other participants.

FHIA's Gerencia de Comunicaciones will work closely with both ABM and the Dirección de Investigación in distributing information to a diverse group of end-users. Early advancement in the project will depend on identifying potential growers of new crops in the target community of smallholders. As previously noted, LUPE's role will be important in this regard. Additionally, a format of regular reporting should be developed so that FHIA communicates its results in new crop development to the wide community of processors, other research organizations, buyers, financial institutions, donors, and others with potential interest in such information. An active program of mailing a monthly newsletter, for example, will be initiated under the project. The subscription to the monthly newsletter will be at no cost for smallholder organizations, and on a fee basis for all others.

## **5. Sustainability, End of Project Status (EOPS), Outputs and Indicators.**

### **a. Sustainability**

At the end of the project, it is envisioned that smallholder and other farmers will have established the required expertise and contacts to directly procure trade promotion services themselves directly from the providers. As such, the Trade Promotion

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Section will be dissolved. However, there will continue to be a need for the market research services provided by the Market Research Section. Therefore, the Market Research Section of the ABM office will be transferred to the Technical Services Division of FHIA. This will reduce the overhead cost of operations and allow the functions of the office to be fully integrated into the FHIA organization. While the Trade Promotion Section will be discontinued, the important functions of market research and marketing assistance will be retained and will be financially sustainable through the provision of services on a cost-plus-fee basis only. In addition, the information infrastructure created by the project will be sustained as an integral research and service function within FHIA after the project ends. The ABM office will retain only five employees after the end of the project: the "Market Research Coordinator" and the "Operations Coordinator", two technicians in market research studies, and one secretary. It is expected that by the end of the project sufficient fees will be generated from these operations to enable FHIA to continue to provide those services and fund the cost of these employees.

b. End Of Project Status (EOPS)

By the PACD of CY 1998, it is expected that the purpose of the project will have been achieved in the following manner:

(1) Smallholder farmers will be producing and exporting five new nontraditional crops and that project supported exported crop sales will have increased by \$5 million.

To make better estimates of values of crops that could be produced and exported under this program, we have made estimates of production and exports of crops that are now being considered for the program. These are high potential crops that have the characteristics required under this program. It should be noted that by the end of the project, more than \$5,000,000 in export sales are estimated to have been generated from these crops. We strongly feel that this amount of gross income is realistic and achievable. We also believe that these levels of increase export sales and farmer incomes will continue for at least three years after the project ends.

The PROEXAG Project report "An Analysis of the Economic Impacts of Non-Traditional Agricultural Export Programs in Central America," dated April 1994, states that nontraditional exports from Honduras were valued at \$23 million in 1991. This reflected approximately a 15% increase from 1989. These levels of growth can be expected to continue for the foreseeable future.

(2) Incomes will have increased by 15% in real terms for 3,000 smallholder farmers.

Participating smallholder farmer incomes will have been increased by the end of the project by at least 15% in real terms directly from sales of these crops.

(3) At least 6,000 jobs working with export crops created for the rural poor. Employment of women emphasized.

At least 6,000 jobs will be created for the rural poor, working with export crops. Employment of women will be emphasized. These jobs will be in the production of the crops, harvest of the crops and preparation for export. These new crops will require more labor for achieving the quality standards and export specifications of handling and packing than do traditional crops. On average, each smallholder farmer will produce sufficient product to give employment to two workers for 60 days each year.

c. Outputs and Indicators

(1) Improved Identification Methodology for Exportable Nontraditional Crops

The project has set a goal of at least five new crops identified and developed by the end of the project using a combination of market research, measurements of adaptability to smallholder farmers, environmental concerns, and sustainability as selection criteria. These factors have not been directly considered in identification of research priorities in the past. FHIA has been searching for a new methodology to better orient their research to meeting the needs of the agriculture sector in Honduras. Methodology tested in the USAID funded PROEXAG project centered in Guatemala has shown that market based identification of crops that have high potential and unfilled market windows can lead to successful crop export programs. The project will assist FHIA in developing and proving this technique for five new crops. As the new system of identification is proven, it will be installed officially as the principal method for identifying research at FHIA. The system will have been installed by the third year of the project.

(2) Market Information System

Market information is important for several reasons. Identification of market opportunities helps researchers know the characteristics of the crop that will be developed. Growers know the potential size of production that can be exported. Information is required on the market to find out correct shipping times and quantities. International shipments are risky at best. Some system must be in place that monitors these shipments' problems such as improper packing and nonpayment of commissions by brokers, so that Honduran producers and exporters can reduce their risk while improving their ability to be competitive. In the United States, several producer associations provide this information. Until this year, this information was provided by the PROEXAG Project. Agricultural research scientists also need this type of information. This Market Information System will be an integral part of the FHIA operation after the project closes. It will offer services on a cost-plus-fee basis. The system will be supported by the Communications Division through document searches

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and access to data bases. The training section of the Communications Division will also supplement the activities of the ABM office in providing market information after the project ends.

### (3) Document Center for Market Information

During the project, a special section in FHIA's already well-equipped library will be set up. This section will contain information on many nontraditional crops, their markets, production systems and other pertinent information. There will be up-to-date reference sources on pesticides, import rules, broker/buyer information and other data. The center will also have access to computerized data bases from international sources. This system will be assisted by transfers from the extensive document center of the PROEXAG Project, copied onto Compact Disks (CD). Copies of these CDs will be given to FHIA and will provide the basis for the FHIA Document Center. The new project will fund supplemental information to complete the collection. FPX may also transfer part of their collection to FHIA. FHIA is committed to maintaining the document center after the project ends.

### (4) The ABM Service Center

After the end of the project, the ABM will continue to provide services to the smallholder farmers, medium and large scale farmers, exporters and brokers on a cost-plus-fee basis for market studies, price information, crop profiles, grower/broker matching, and other such marketing services. These services will be supported by complementary services provided through the Document Center. Annex A shows estimated fee generation throughout the life of the project (LOP) and after the PACD (the year 1999).

### (5) Nontraditional Agricultural Crop Production Training

At least 1,400 smallholder farmers/extension workers will have been trained in nontraditional crop production and quality control required to export. Training to women will be emphasized. This training will have transferred the technology required to produce, pack, and export crops supported by this project. This training will be practically based and in most cases, conducted at the farm sites, thereby insuring that the technology is fully understood and useful to smallholders.

### (6) Environmental Training

At least 1,700 smallholder farmers, researchers, and exporters will have been trained in environmental concerns and sustainable agriculture. Training to women will be emphasized. This training will include pesticide hazards and application techniques, concerns for biodiversity, methods to monitor environmental impacts, and methods

to analyze on-site and off-site environmental damage. The technology for this type of environmental alertness and monitoring is available but not well known or practiced in Honduras.

(7) Local Marketing of Smallholder Produce

Local specialty markets will be established in Tegucigalpa and San Pedro Sula supermarkets. These will feature products identified for export which have high potential for local sales. They will be the first line market tests of the new products. The growers and packers will gain practical experience as well as the supermarkets gaining insight in modern marketing techniques. FHIA will work closely with these supermarkets to encourage them to market the products properly. By the end of the project, at least two specialty markets will be functioning in supermarkets.

(8) Nontraditional Agricultural Exhibitions

Annual exhibitions of Honduran export crops for external importers and brokers as well as for the Honduran public and government will be used to enhance the image of nontraditional crops. These exhibitions will feature all nontraditional export crops from Honduras. The exhibitions will be held in San Pedro Sula. By the end of the project three exhibitions will have been held.

(9) International Recognition of FHIA's Support to Smallholder Farmers

By the end of the project, FHIA will have become a reliable source for counseling and advice on nontraditional agricultural production, marketing, and development related to both large exporters and smallholder farmers. FHIA will be recognized as a principal source in providing experienced professionals in the areas of nontraditional agricultural, smallholder farming techniques, and export marketing services in the region. FHIA will have a proven track record demonstrating how to bring smallholder farmers into modern farming and exporting of nontraditional crops.

**IV. SUMMARY COST ESTIMATE AND FINANCIAL PLAN**

The estimated total cost of this project is approximately \$3.37 million. USAID will contribute \$2.5 million in grant funds and the Fundación Hondureña de Investigación Agrícola (FHIA) will contribute the local currency equivalent of \$867,000:

<b>SUMMARY FINANCIAL PLAN</b>			
	<b>USAID</b>	<b>FHIA</b>	<b>TOTAL</b>
<b>Component</b>			
<b>Establishment Costs</b>	\$ 140,000	\$ 35,000	\$ 175,000
<b>Land and Facilities</b>	-0-	\$240,000	\$ 240,000
<b>Operating Costs</b>	\$1,504,000	\$520,000	\$2,024,000
<b>Training</b>	\$ 100,000	\$ 37,000	\$ 137,000
<b>Service Contracts</b>	\$ 520,000	\$ 20,000	\$ 540,000
<b>Evaluation</b>	\$ 50,000	-0-	\$ 50,000
<b>Audit</b>	\$ 28,000	-0-	\$ 28,000
<b>USAID Project Assistant</b>	\$ 125,000	-0-	\$ 125,000
<b>Contingency</b>	\$ 33,000	\$ 15,000	\$ 48,000
<b>TOTAL</b>	<b>\$2,500,000</b>	<b>\$867,000</b>	<b>\$3,367,000</b>

A more detailed budget and Financial Plan is shown in Annex A.

## **V. IMPLEMENTATION ARRANGEMENTS**

### **A. Implementing Institutions**

#### **1. FHIA**

FHIA will be the implementing institution for this project. The ABM General Manager will be responsible for overseeing the operations of ABM and will be assisted by two section coordinators, one for Market Research and one for Trade Promotion. Annex B presents the institutional analysis which describes how ABM fits into the present structure of FHIA.

The Market Research Coordinator will have technical responsibilities and will be assisted by a database analyst, a data entry specialist, and a computer network technician. These four positions will be filled at the beginning of the project. The head of the Trade Promotion Section will also be hired at the beginning of the project. Two assistants to the Trade Promotion Coordinator, one for coordinating trade services, the other for the provision of management and organizational support and

training to farmers, will be hired during the second and third year of the project. The rest of the staff will consist of an executive secretary and two support staff (a driver and a janitor). Once fully staffed and implemented, the ABM will consist of three managerial/technical staff overseeing five specialists and three office support staff, making the total number of positions 11.

The ABM will participate in the management policy process to help FHIA plan its research activities and administration for export promotion. The ABM General Manager will liaise with the Dirección de Investigación at its operational and field levels to keep informed of ongoing research programs and projects. This will help the General Manager to identify and coordinate marketing opportunities and development activities. This constant interaction will provide a general vision and validation of the research activities from a marketing perspective.

The staff will require direct and constant contact to maintain a flow of updated information horizontally across FHIA's entire organization at both operational and field levels. This information flow will be particularly important with personnel in the Gerencia de Comunicaciones and Dirección de Investigación.

The Market Research Section staff will receive assistance from the Gerencia de Comunicaciones in preparing communication and educational materials (and for material distribution). The materials will be presented in an accessible format and language so that they are easy to understand and use by the smallholder farmer.

The Trade and Promotion Section staff will work with the Gerencia de Comunicaciones to coordinate marketing related training and distribution of market information. They will also receive information on costs for ongoing product development projects from the Gerencia Administrativa. Additionally, they will maintain permanent contact with the economic analyst in the Dirección de Investigación to monitor and evaluate production and marketing experiences. The economic analyst will develop data collection mechanisms and analysis models and formats to suit the needs of the production-export projects.

It is envisioned that by the end of the project this system will have been perfected and will be institutionalized as the normal system for identifying and setting priorities for research. Training as required will reinforce the installation of the system. One new major player will be the Advisory Committee. This Committee will provide external technical oversight and advice to the FHIA staff on their programs. This oversight has been missing in the system of identifying research that now exists in FHIA. Outside oversight has been identified as a major constraint in a research organization's ability to identify appropriate research topics.

A life of project (LOP) Implementation Plan will be submitted to USAID for concurrence within 90 calendar days of the signing of the grant. This Plan will include

a detailed annual Work plan for the first year. The Implementation Plan will include the new crop profiles. As these are developed, they will be included in the Plan by amendment. An implementation schedule detailing milestones and major project activities will be included in the Implementation Plan. The life of project Implementation Plan will be updated annually, or as required by USAID. FHIA will also submit quarterly progress reports for the first year of operations and semi-annual reports thereafter.

## **2. GOH Implementing Agencies**

The GOH will be member of the Oversight Committee and of the Advisory Committee, as described above in Section III.B.3. In addition, FHIA will identify key officers in the Honduran Government, particularly from the Ministries of Natural Resources and Economy, and will maintain frequent contact with them to promote export crop production, through interinstitutional meetings, the ABM information bulletin, and through GOH participation on the FHIA Board of Directors.

## **3. USAID**

FHIA has had a long relationship with USAID under Project 522-0249. This experience will allow quick start-up of the new project. USAID will be a member of the Oversight Committee, and an observer on the Advisory and Commodity Committees, as described above in Section III.B.3. In addition, USAID will approve the life of project Implementation Plan, annual Work Plans, and the environmental monitoring plan.

USAID is expected to assign a project officer to provide oversight management of the project. This person will also help FHIA in meeting regulatory requirements of the U.S. Government, will represent USAID at project meetings, and will expedite information flows between USAID and FHIA. All correspondence of a routine nature will be sent to the USAID project officer. Vouchers and other claims for funding will be sent to the USAID Controller's Office in Tegucigalpa. All correspondence and documents related to procurement under the project, or that related to the grant agreement, will be sent to the project officer, with a copy to the USAID Contracting Officer.

## **4. Overall Project Coordination**

At the working level, quarterly project meetings of key project representatives together with the USAID project officer will be held for the purpose of assessing the progress of project implementation. Overall project coordination will also take place in periodic meetings of the Advisory Committee, which will be attended by representatives of the Ministry of Natural Resources, the Ministry of Finance and Public Credit, USAID, and other public and private institutions.

## **B. Procurement Plan**

FHIA will be responsible for all project funded procurement. All project procurement will use USAID Handbook 13 procurement procedures.

The project will require four vehicles, including a minibus or van. \$80,000 is budgeted for this purpose. The vehicles should be ordered soon after signing the grant agreement. Office furniture and equipment will be required early in project life. USAID will work with FHIA to decide which items can be purchased locally and which must be imported. Imported items should be ordered early. USAID Handbook 13 purchasing regulations will be followed throughout.

It should be noted that no procurement of pesticides is anticipated under the project. If, however, pesticide procurement is required, written approval will be requested of USAID on a case-by-case basis. In these cases, FHIA will provide a written justification to USAID for the pesticide procurement. Examples of cases where it may be necessary to procure pesticides include when the product is not available in Honduras because of the experimental nature of the crop. In all cases, pesticides will be procured under the project in small quantities for experimental research. Pesticides will not be provided to farmers under the project.

## **VI. MONITORING AND EVALUATION**

### **A. Monitoring**

Monitoring of project progress will be on-going. In addition to routine monitoring of project progress, the project monitoring will pay special attention to the following areas of environmental concern:

- Pesticide contamination in land, water and crops
- Soil erosion
- Deforestation
- Contamination of water resources

FHIA will submit to USAID a detailed environmental monitoring plan within three months of signing of the grant agreement. This plan will specify:

- The soil, water and plant tissue analysis for pesticide residues to be made.
- Intervals at which soil, water, and tissue samples will be taken, at field trial and production levels.
- Procedures for obtaining samples.

- Methodology for detecting effects of soil erosion and decreases in fertility.
- The format of an annual environmental report to be submitted to USAID.

Costs for environmental monitoring will be primarily for laboratory analysis and paid for by the project by internal transfer to FHIA. Supervision and field sampling will be done by research and outreach staff. ABM staff will prepare safe handling techniques and other materials for distribution to growers and shippers, with prior written USAID approval of these techniques and materials. These costs are not reflected as a separate line item in the project budget.

### **B. External Evaluation**

An external evaluation is scheduled for CY 1996. Evaluators will work primarily from project design documents, progress reports, and other periodic project reports. The evaluators will visit representative field operations and interview project implementors and farmers. The evaluation will be contracted by FHIA. USAID will approve the Scope of Work of the evaluation before the contracting of the evaluation team and will approve the final report before payment by FHIA to the contractor. The evaluation data will be gender disaggregated. Annex C presents a detail of the scope of the external evaluation.

### **C. Audits**

The project will be externally audited annually by a firm acceptable to USAID and FHIA. This audit will be conducted as required by USAID regulations and directives and FHIA's internal regulations.

## **VII. ANALYTICAL CONSIDERATIONS**

### **A. Technical Feasibility**

The smallholder farmer in Honduras has not been the direct recipient of assistance to nontraditional agricultural export promotion. This has resulted in much of the gains in nontraditional agricultural exporting being captured by relatively large scale Honduran farmers. However, there is considerable evidence in Honduras that the smallholder farmer can and does participate in exporting to regional and international markets. In the case of plantain exported to El Salvador by the Cooperative CARPIHL in Colon, for example, the quality of the product is similar to what would be sold in Honduras. In the case of plantain exported to the United States by a cooperative in El Progreso, on the other hand, considerable attention is paid to quality control and the plantain is exported already peeled for processing into chips.

Other small exporters are also actively exporting high quality products to the United States. An agricultural cooperative in Comayagua, Fruta del Sol, is packing and exporting Chinese vegetables for its member smallholder farmers. These vegetables must meet rigorous U.S. quality and phytosanitary standards. Exports of these vegetables have steadily increased due to the cooperative's ability to consistently meet these standards and demanding export schedules. Other cooperatives, including COHORSIL in Siguatepeque, are now gearing up to export. They have approached FHIA for assistance and have already sent participants to various training seminars at FHIA. The project will utilize already organized cooperatives or groups of smallholder farmers such as Fruta del Sol and LUPE as initial contacts to test production and market technologies that will then be transferred to other less experienced groups of smallholder farmers.

While cooperatives and other organized groups are an efficient vehicle for assisting smallholder farmers, many also receive assistance in producing and exporting new crops through cooperation with larger producers. This cooperation takes two forms: (1) the smallholder farmer exports together with the larger producer, thereby sharing risk; or, (2) the smallholder farmer sells his/her product to the larger producer, thereby realizing less profit but reducing risk. Both systems are appropriate routes and good alternatives for the smallholder farmer. The project will build on and promote this already developed relationship between these groups. It is expected that crops such as asparagus and berries will be produced and exported through one or both of these mechanisms.

The above examples show that smallholders can and will export if they have the initial support and technology to enter the market. While not all smallholder farmers will be willing to accept the increased risks associated with exporting new crops, the evidence is clear that there are many that will, and that will do so successfully. Similar examples can be found in all Central American countries.

## **B. Institutional Feasibility**

The ABM will be semi-autonomous and operationally independent to allow separate monitoring and evaluation of its performance. Its activities will generate horizontal interaction between peers within the ABM and throughout FHIA's institution.

FHIA has evolved into a mature research organization, with 10 years of technical and managerial experience. Research is the senior division of the institution, and thus influences policy definition and decision-making activities. Complementary to research are two technical commercial labs with the skills and capacity to increase the volume of service to FHIA and external clients.

The support departments are well structured and staffed, and have developed businesslike operational systems and reporting procedures. All have the flexibility to

expand without requiring additional resources. The Gerencia de Comunicaciones is upgrading its technical and operational capacity to effectively contribute to these coordinated efforts.

One of FHIA's concerns is how the integration of the ABM will affect its respected research programs. Favorable to FHIA, its vertical structure is not excessively hierarchical since it has only three levels between the General Director and the operational levels, even within the Dirección de Investigación. This provides a great deal of flexibility to the operational tiers, and has resulted in many creative research efforts.

ABM marketing staff must be sensitive to the implications that their activities may have on FHIA and consider it when planning and carrying out the export promotion program. Since remaining flexible will be instrumental to success in the promotion of nontraditional exports, FHIA will have to adjust to this new hybrid type of functioning, and facilitate the compatibility between the two organizational approaches (i.e., research and marketing). All planning and evaluating activities will be coordinated, and the combined program results shared.

#### **C. Environmental Considerations**

FHIA has conducted its activities in an environmentally sound basis since inception. This tradition will extend to the project. FHIA will submit to USAID a detailed environmental monitoring plan within three months of signing of the grant agreement. As noted above, this plan will specify:

1. The soil, water and plant tissue analyze for pesticide residues to be made.
2. The intervals at which soil, water, and tissue samples will be taken at field trial and production levels and the procedures for obtaining these sample.
3. The methodology for detecting effects of soil erosion and decreases in fertility.
4. The format of an annual environmental report to be submitted to USAID.

#### **D. Social Soundness Analysis**

The Social Soundness Analysis is presented in Annex D. It identifies the project direct and indirect beneficiaries, as well as issues related to project execution, including gender constraints and project strategies. The project direct beneficiaries are:

1. Farmers, specially smallholders, which will increase their income over the life of the Project.

2. Laborers will have more work opportunities due to the more intensive nature of NTAE crops.
3. Commercial Enterprises, which will have market information and opportunities available.
4. FHIA and its personnel, will gain market access for its products and be better able to respond to problems found in agricultural production and exports.

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## ANNEX A

### FINANCIAL PLAN

#### A. FHIA's Current Financial Situation

FHIA expects income of about 21 million Lps. in 1994, and expenses of 18 million Lps. This leaves 3 million Lps. to revert to the endowment fund. Major sources of income in 1994 are income from the endowment (51 percent), fees for services and sales of products (16 percent) and project support from various donors (21 percent). Membership fees and donor contributions make up most of the balance.

In 1993, 5.5 million Lps. reverted to the endowment fund, which was valued at 65.5 million Lps. at the beginning of 1994. The final 50 million Lps. of the endowment were received early in 1994 which, along with surplus of income over expenses during the year, will bring the total endowment to 119 million Lps. The endowment fund is projected at over 160 million Lps. by the year 2000, generating about 16 million Lps. per year in income.

FHIA is well endowed and generates about 37 percent of its own revenue -- a healthy financial situation. Since the endowment fund is in Lps., severe inflation could erode FHIA's financial base.

#### B. Project Budget

Total cost of the project is \$3.367 million over a four-year period. USAID will contribute \$2.5 million in grant funds. FHIA's counterpart contribution will be \$867,000, as presented on Exhibit A-1, Summary Financial Plan.

##### 1. Costs

Detailed costs of the project are presented on Exhibit A-2 through A-5. Exhibit A-2 presents the estimated project cost by year. This exhibit shows that the project will require 4 vehicles (including a bus or mini-van) to be purchased during the first year. Expenses for Travel include international travel to five major trade fairs for four participants, as well as in-country travel. Services-Subcontracts includes fees paid for marketing studies, brokerage, and services like those now provided by the FPX office in Miami. Services-Internal Transfers includes payments to FHIA for laboratory services.

Exhibit A-3 presents a detailed budget for Office Furniture and other equipment required, including some equipment for the library. Estimated Salaries and benefits for the ABM staff are presented on Exhibit A-4. Exhibit A-5 presents the estimated costs for hiring consultants to the project.

## 2. Funding Plan

USAID funds will finance establishment costs for vehicles, office furniture, computers, and other capital items; operating costs including salaries; marketing service activities; training; and environmental monitoring and project evaluation.

FHIA's contribution will include land for research, laboratory, and cold room facilities; administrative support; and in-house equipment maintenance. Also included are wages and benefits of non-project FHIA technicians rendering service to ABM. This equals over 25 percent of total project funding. See Exhibit A-1.

## C. Sustainability

### 1. Fees and Cost Recovery

Non-project producers and exporters will pay for market and other ABM services. Project clients will pay for services when possible, but it is recognized that the primary target group, smallholders, is unable to contribute significantly. Prior experience of both FHIA and FPX show that medium- and large- scale producers, although reluctant to contribute in the past, are beginning to pay for services more often. As described in Section III.B.2. of this proposal, project producers and exporters are expected to "graduate" in a reasonable period and obtain marketing information from commercial sources or pay regular fees to the project.

In addition, the ABM will initiate a system of paid memberships that will allow those members to reach services on a priority basis. The benefits of membership will be receipt of the periodic news letter, access to the document center, invitations to the annual discussion of activities by the ABM, and a discount on the fee for services provided by the ABM. Fees will be set based on a subscription for membership and a monthly quota. It is envisioned that members will include smallholder farmer associations and individual medium and large exporters, though individual smallholder farmers may become members if they so choose. Membership will be open to all that feel that support to nontraditional agriculture is critical to the farming sector in Honduras and to the economy as a whole. Members will not have any direct control of the management of ABM, or of FHIS as a whole. The actual fees and member categories will be decided during the first two years of the project. At the end of the project, it is envisioned that smallholder and other farmers will have established the required expertise and contacts to directly procure trade promotion services themselves directly from the providers. As such, the Trade Promotion Section will be dissolved. However, there will continue to be a need for the market research services provided by the Market Research Section. Therefore, the Market Research Section of the ABM office will be transferred to the Technical Services Division of FHIA. This will reduce the overhead cost of operations and allow the functions of the office to be fully integrated into the FHIA organization. While the Trade Promotion Section will

be discontinued, the important functions of market research and marketing assistance will be retained and will be financially sustainable through the provision of services on a cost-plus-fee basis only. In addition, the information infrastructure created by the project will be sustained as an integral research and service function within FHIA after the project ends. The ABM office will retain only five employees after the end of the project: the "Market Research Coordinator" and "Operations Coordinator", two technicians in market research studies, and one secretary. It is expected that by the end of the project sufficient fees will be generated from these operations to enable FHIA to continue to provide those services and fund the cost of these employees. After the end of the project, the ABM will continue to provide services to the smallholder farmers, medium and large scale farmers, exporters and brokers on a cost-plus-fee basis for market studies, price information, crop profiles, grower/broker matching, and other such marketing services. These services will be supported by complementary services provided through the Document Center. The table below shows estimated fee generation throughout the life of the project.

### Projected Income Generated by the ABM 1995-1999 (in US\$)

Income Source	1995	1996	1997	1998	1999
Documentation Center					
Market Studies	0	2,000	4,000	10,000	20,000
Price Information	0	600	1,200	3,000	6,000
Trend Analysis	0	400	800	2,000	4,000
Training Activities					
Training Programs	0	1,500	3,000	7,500	15,000
Seminars/Conferences	0	600	1,200	3,000	6,000
Expos/Shows	0	400	800	2,000	4,000
Publications					
Technical Publications	0	800	1,600	4,000	8,000
Other Materials	0	200	400	1,000	2,000
Technical Assistance					
Assistance to Growers	0	1,000	2,000	5,000	10,000
Overhead on Projects	0	500	1,000	2,500	5,000
<b>TOTAL</b>	<b>0</b>	<b>8,000</b>	<b>16,000</b>	<b>40,000</b>	<b>80,000</b>

At the end of the project, the office will be reduced in size and activities. The Trade and Promotion Section will be eliminated. The Market Research Section of the ABM will be transferred to become part of the Technical Services Division of FHIA. This will reduce the overhead cost of operations and allow the future functions of the office to be fully integrated into the FHIA organization. As the learning and development phase for market services will be completed under the project, much of the activities of the office will have been performed before and will be routine.

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At this point, the annual budget of this office will be about \$80,000 in fixed costs and \$40,000 in variable costs related to producing studies. As FHIA will utilize the ABM's market research expertise to support FHIA's internal research considerably activities, \$40,000 of operating costs each year starting in 1999 will come from the regular budget of FHIA. The other \$80,000 will be generated from fees and profit for market research services sold to the public.

There is considerable evidence that this amount of service generated fees can be reached. The export market is growing throughout Central America. Studies supporting the nontraditional export sector have in the past come from PROEXAG. This project is closing and there is no new source for the services performed. FHIA will also actively look to other donors to provide financing and services for FHIA's support to smallholder farmers.

An additional potential source of income will be through successful exports of crops supported by the ABM. FHIA would make agreements with growers supported by the project to provide additional technical assistance after a product becomes commercial with a contractual agreement that FHIA receive a commission on every unit of product exported, in return for FHIA's no-fee technical assistance during the development phase of the production of the crop. For example, if asparagus becomes a successful commercial crop, FHIA would get \$0.50 per box after exports reach 500 boxes per season, and the grower would get continued assistance with price information and other such inputs, as previously discussed.

By the beginning of CY 1997, FHIA will be able to evaluate progress toward sustainability and reevaluate the above assumptions. Should changes be required, sufficient time will be left in the project to effect mid-course adjustments.

EXHIBIT A-1. SUMMARY FINANCIAL PLAN 000 DOLLARS

COMPONENT	AID	FHIA	TOTAL
Establishment Costs	140	35	175
Land and Facilities			
Research Plots		75	75
Office Space		75	75
Library		20	20
Communication Facilities		15	15
Computer Network		5	5
Cold Storage		50	50
OPERATING COSTS			
Salaries	738	150	888
Travel	175	50	225
Fuel, Oil, Maintenance - Vehicles	50	20	70
Software and Computer Maintenance	20	5	25
Subscriptions	63		63
Association Memberships	27		27
Administrative Support		80	80
Other	431	215	646
TRAINING			
FHIA Staff	25	12	37
Producers and Exporters	75	25	100
SERVICE - CONTRACTS	435		435
SERVICE - INTERNAL TRANSFERS	85	20	105
PROJECT EVALUATION	50		50
EXTERNAL AUDIT	28		28
USAID PROJECT ASSISTANT	125		125
CONTINGENCY	33	15	48
<b>TOTAL</b>	<b>2500</b>	<b>867</b>	<b>3367</b>

EXHIBIT A-2. ESTIMATED PROJECT COSTS - SUMMARY 000 DOLLARS

COST ITEM	YEAR	YEAR	YEAR	YEAR
	1	2	3	4
<b>Establishment Costs:</b>				
Vehicles	80			
Office Furniture & Equipment	33	2		
Library Acquisitions & Equipment	10	5		
Other	10			
<b>Operating Costs:</b>				
Salaries and Benefits	169	178	186	205
Consultants	204	102	28	28
Travel and per diem	50	50	50	25
Fuel, Oil, Maintenance	10	10	15	15
Insurance and Utilities	8	8	9	9
Software & Computer Maintenance	4	5	5	6
Office Supplies	5	5	5	5
Other Supplies	3	4	4	4
Subscriptions	15	15	16	17
Association Memberships	6	6	7	8
Service (subcontracts)	110	110	115	100
Service (internal transfers)	20	20	25	20
Training for FHIA staff	10	5	5	5
Training for Producers & Exporters	20	20	20	15
Project Evaluation			50	
External Audit	7	7	7	7
Contingency	10	10	10	3
USAID Project Assistant*	25	25	25	50
<b>TOTAL</b>	<b>809</b>	<b>587</b>	<b>582</b>	<b>522</b>
<b>GRAND TOTAL</b>				<b>2500</b>

\* This position will be co-funded with other USAID projects

EXHIBIT A-3 ESTIMATED PROJECT COSTS - OFFICE FURNITURE AND EQUIPMENT

ITEM.	ABM	ES	MRC	DBA	DEA	CNT	TPC	ESA	FOA	SS	TOTAL	UNIT COST	TOTAL COST
Executive desk & chair	1	1	1				1				4	250	1000
Visitor chair	3	2	2	2			2			2	13	100	1300
Computer table	1	1	1				1				4	200	800
Bookshelves	2	4	1	4			1				12	150	1800
Filing cabinet	1	1	2		1	1	1				7	150	1050
Estantera				1	1						2	200	400
Storage cabinet		2		2		2	2				8	150	1200
Desk/computer workstation			1	1	1	1		1	1		6	150	900
Telephones	4										4	150	600
Work table				1		1	1				3	150	450
Tool set						1					1	200	200
Desktop PC	1	1	1	1	1	1	1				7	1700	11900
Laptop PC							1	1			2	2000	4000
Laser Printer		1									1	2000	2000
Dot matrix printer		1									1	400	400
Photocopier		1									1	6000	6000
Telefax		1									1	500	500
Overhead projector		1									1	200	200
Presentation board		1			2						3	50	150
<b>Total</b>													<b>34850</b>

ABM - ABM Manager

ES - Executive Secretary

MRC - Market Research Coordinator

DBA - Database Analyst

DEA - Data Entry Assistant

CNT - Computer Network Technician

TPC - Trade Promotion Coordinator

ESA - Export Sales Assistant

FOA - Farmer Organization Assistant

SS - Support Staff

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EXHIBIT A-4. ESTIMATED COSTS - SALARIES AND BENEFITS 000 DOLLARS

POSITION	PROJECT YEAR				TOTAL
	1	2	3	4	
ABM Manager	60.0	63.0	66.2	72.9	262.1
Executive Secretary	5.9	6.2	6.5	7.2	25.8
Market Research Coordinator	30.0	31.5	33.1	36.5	131.1
Database Analyst	7.7	8.1	8.5	9.4	33.7
Data Entry Assistant	5.9	6.2	6.5	7.2	25.8
Computer Network Technician	7.7	8.1	8.5	9.4	33.7
Operations Coordinator	30.0	31.5	33.1	36.5	131.1
Producer Relations Assistant	7.7	8.1	8.5	9.4	33.7
Export Sales Assistant	7.7	8.1	8.5	9.4	33.7
Support Staff 1	3.3	3.5	3.6	4.0	14.4
Support Staff 2	3.1	3.3	3.4	3.8	13.6
YEARLY TOTALS	169.0	177.5	186.3	205.7	
GRAND TOTAL					738.5

Table reflects 5% per year increase for inflation  
 Minor errors due to rounding

EXHIBIT A-5. ESTIMATED COSTS - CONSULTANTS 000 DOLLARS

CONSULTANTS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TOTAL
Industry advisor	70.00				70.00
Prod & Post Harvest - Berries	11.30	11.30	5.65	5.65	33.90
Prod & Post Harvest - Asparagus	11.30	11.30	5.65	5.65	33.90
Prod & Post Harvest - Onions	11.30	11.30	5.65	5.65	33.90
Prod & Post Harvest - Ginger	11.30	11.30	5.65	5.65	33.90
Prod & Post Harvest - Rambutan	11.30	11.30	5.65	5.65	33.90
Prod & Post Harvest - Cut Flowers	11.30	11.30			22.60
Integrated Pest Management	11.30	11.30			22.60
Screen House Production	11.30	11.30			22.60
Organic Hort. Prod./Certification	11.30	11.30			22.60
Strategic Planning	15.35				15.35
Farmer Organization	17.00				17.00
<b>TOTAL</b>	<b>204.05</b>	<b>101.70</b>	<b>28.25</b>	<b>28.25</b>	<b>362.25</b>

## ANNEX B

### INSTITUTIONAL ANALYSIS

#### I. ORGANIZATION

##### A. FHIA Agribusiness and Marketing Office

The ABM will be headed by a General Manager who will be responsible for the operations and results of the office, who will be the administrative liaison with the rest of FHIA. The General Manager will work under the direct supervision of FHIA's General Director. Exhibit B-1, the organizational chart, shows the structural form of the ABM.

The ABM will be semi-autonomous and operationally independent to allow separate monitoring and evaluation of its performance. Its activities will generate horizontal interaction between peers within the ABM and throughout FHIA's institution.

##### B. FHIA

###### 1. Current Structures

FHIA has evolved into a mature research organization, with 10 years of technical and managerial experience. The emphasis on agricultural research is clearly shown by its current organizational structure, shown in Exhibit B-2. Different departments are conveniently grouped by functions to reinforce the technical work that FHIA does.

Research is the senior division of the institution, and thus influences policy definition and decision-making activities. Complementary to research are two technical commercial labs with the skills and capacity to increase the volume of service to FHIA and external clients.

The support departments are well structured and staffed, and have developed businesslike operational systems and reporting procedures. All have the flexibility to expand without requiring additional resources. The Gerencia de Comunicaciones is upgrading its technical and operational capacity to effectively contribute to these coordinated efforts.

###### 2. Installation of the Agribusiness and Marketing Office

Exhibit B-3 shows the changes to the current organizational structure after the creation of the ABM. FHIA's researchers have long felt the need for additional support in the marketing area as a means to provide a comprehensive service to Honduran smallholder farmers. FHIA's researchers believe this new marketing

capacity will be a source of valuable information to redirect and redefine ongoing and new research programs.

The ABM will concentrate on the identification and analysis of agricultural export promotion possibilities from a market perspective. Its staff will actively communicate and liaise with exporters, local farmers, importers, and with the Dirección de Investigación and FHIA support departments, to successfully achieve the purpose of the project -- the development of agricultural export crops and mechanisms that are appropriate for smallholder farmer participation and which lead to increases in smallholder incomes. The ABM's success will partially depend on its capacity to induce an intra-institutional synergy with the kind of flexibility and adaptability that the development of export production requires.

### **3. Institution Culture and Effects**

One of FHIA's concerns is how the integration of the ABM will affect its respected research programs.

Favorable to FHIA, its vertical structure is not excessively hierarchical since it has only three levels between the General Director and the operational levels, even within the Dirección de Investigación. This provides a great deal of flexibility to the operational tiers, and has resulted in many creative research efforts.

ABM marketing staff must be sensitive to the implications that their activities may have on FHIA and consider it when planning and carrying out the export promotion program. Since remaining flexible will be instrumental to success in the promotion of nontraditional exports, FHIA will have to adjust to this new hybrid type of functioning, and facilitate the compatibility between the two organizational approaches (i.e., research and marketing). All planning and evaluating activities will be coordinated, and the combined program results shared.

### **4. Span of Management and Future Needs**

There is a limit to the number of persons and activities that a manager can effectively oversee. The extent of this ability is limited by the skills of the manager, the amount of structural support provided, and the size and complexity of the operations. Presently, there is no evidence of problems resulting from FHIA's current management structure.

An area that FHIA will need to enhance is the programming process to produce strategic analyses to integrate the work of the different functions. However, this can be achieved with a short-term consulting intervention in support of the upper management team. The administrative capacity required to help with the accomplishment of these management tools is already in place, and the training plan

under this project includes a component to address these needs.

## **5. Strategic Programming**

The ABM will stimulate strategic analyses and integrated planning of FHIA's research programs and complementary activities. Such strategic analyses may follow a process such as the one presented in Exhibit B-5.

## **6. Institutional Relationships**

### **a. Honduran Government**

FHIA will identify key officers in the Honduran Government, particularly from the Ministries of Natural Resources and Economy, and will maintain frequent contact with them to promote export crop production, through interinstitutional meetings, the ABM information bulletin, and through GOH participation on the FHIA Board of Directors. FHIA will actively seek memberships on key GOH committees and other GOH bodies that influence the production and export of nontraditional agricultural crops. The goal will be threefold. FHIA will act as a voice for the agricultural export sector, as an advisor to the GOH on suitable policies to nurture nontraditional agricultural exports, and as a pressure group to press the GOH to modernize the national agricultural market infrastructure.

FHIA will send invitations to key GOH officers to participate in selected seminars, where the need for better market infrastructures will be addressed. It is envisioned that eventually the GOH will come to rely on FHIA as a valuable resource in the market analysis, research and promotion of nontraditional agricultural exports, and that FHIA - GOH cooperation agreements will be signed on a cost-plus-fee basis.

### **b. International**

FHIA will continue to develop professional relationships with universities and other research institutions in the region and throughout the world to share marketing projects and results. FHIA will also arrange meetings and provide information on crop marketing, research and production to these and other interested groups.

## **7. Management Plan**

FHIA's General Director will represent FHIA and sign all legal and reporting documents with USAID. The General Manager of the ABM will assist the General Director with technical reporting and project implementation issues, including debriefing and presentation of progress reports to USAID. FHIA's Administrative Manager will help with financial reporting and discussions of financial matters with USAID. The General Director, in consultation with the FHIA Board of Directors and USAID will make the

final decision on crops and activities selected for funding under this project.

An Implementation Plan will be submitted to USAID for concurrence within 90 calendar days of the signing of the grant. This plan will cover the life of the project in general and will contain a detailed Work Plan for the first year. The Implementation Plan will include the new crop profiles. As these are developed, they will be included in the Plan by amendment. An implementation schedule detailing milestones and major project activities will be included in the Implementation Plan. The Implementation Plan will be updated annually, or as required by USAID.

## **C. Staffing**

### **1. Hierarchy and Size**

The ABM General Manager will be responsible for overseeing the operations of ABM and will be assisted by two section coordinators, one for Market Research and one for Trade Promotion. The position of ABM General Manager will be filled when the ABM is created and one of his/her first responsibilities will be to select the rest of the staff.

The Market Research Coordinator will have technical responsibilities and will be assisted by a database analyst, a data entry specialist, and a computer network technician. These four positions will be filled at the beginning of the project. The head of the Trade Promotion Section will also be hired at the beginning of the project. Two assistants to the Trade Promotion Coordinator, one for coordinating trade services, the other for the provision of management and organizational support and training to farmers, will be hired during the second and third year of the project. The rest of the staff will consist of an executive secretary and two support staff (a driver and a janitor). Once fully staffed and implemented, the ABM will consist of three managerial/technical staff overseeing five specialists and three office support staff, making the total number of positions 11.

The ABM will have the support of an agricultural export and marketing industry advisor. This advisor, an individual with high-level agribusiness and marketing experience and knowledge of FHIA's field operations, will be available at the beginning to help start the ABM and provide training to the staff.

### **2. Leadership**

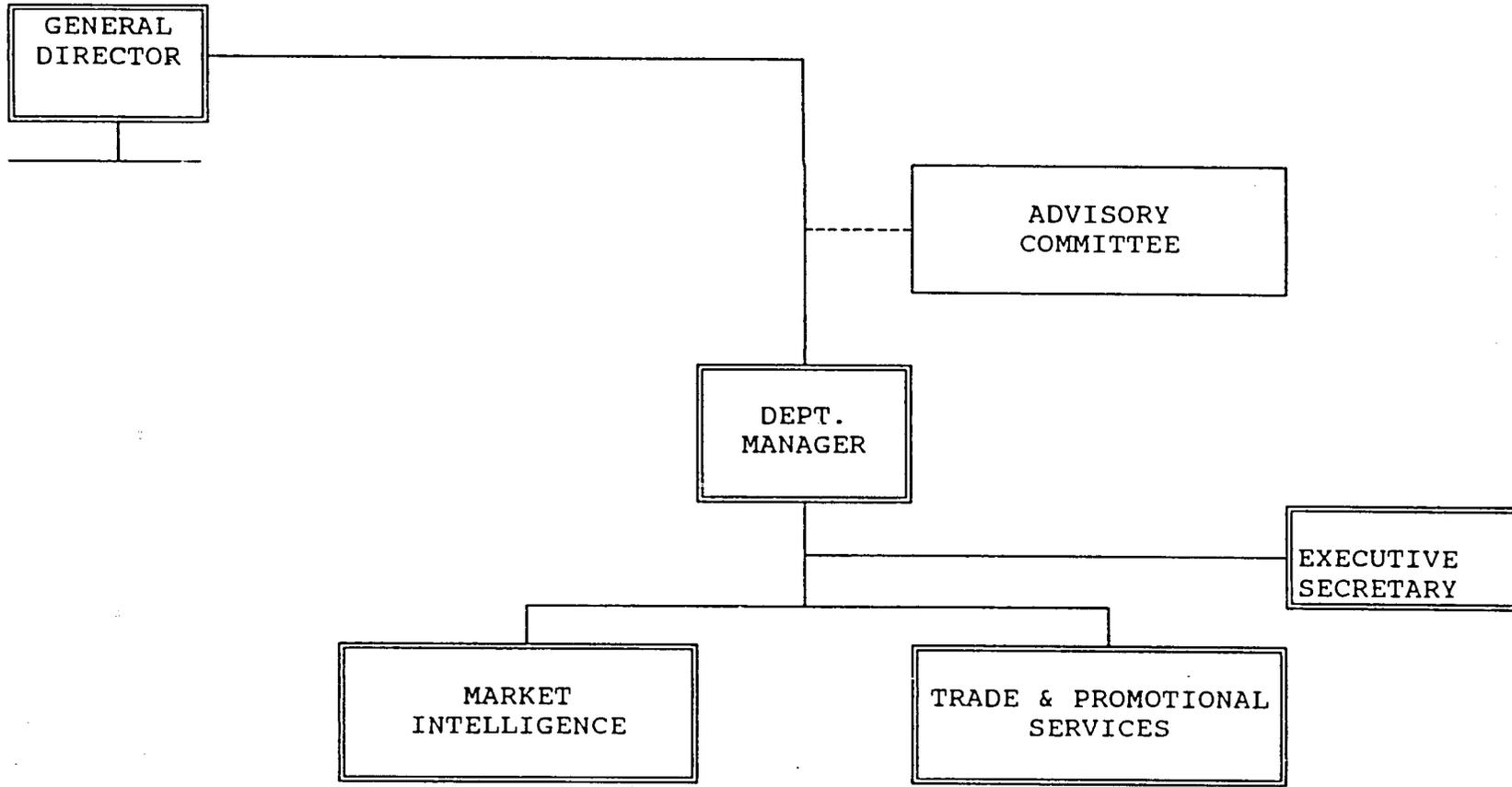
The ABM General Manager must be a skilled administrator (as opposed to a researcher or technician -- predominant in an organization such as FHIA). This person will take a businesslike approach, and will be an expert in planning, coordinating, motivating, and achieving concrete and timely results. The General Manager will need to liaise with other departments within FHIA and with public and private sector individuals and organizations outside FHIA, and so must have demonstrated effective interpersonal

skills and an ability for clear oral and written presentations.

### **3. Job Descriptions**

Exhibit B-4 describes ABM staff responsibilities and required skills.

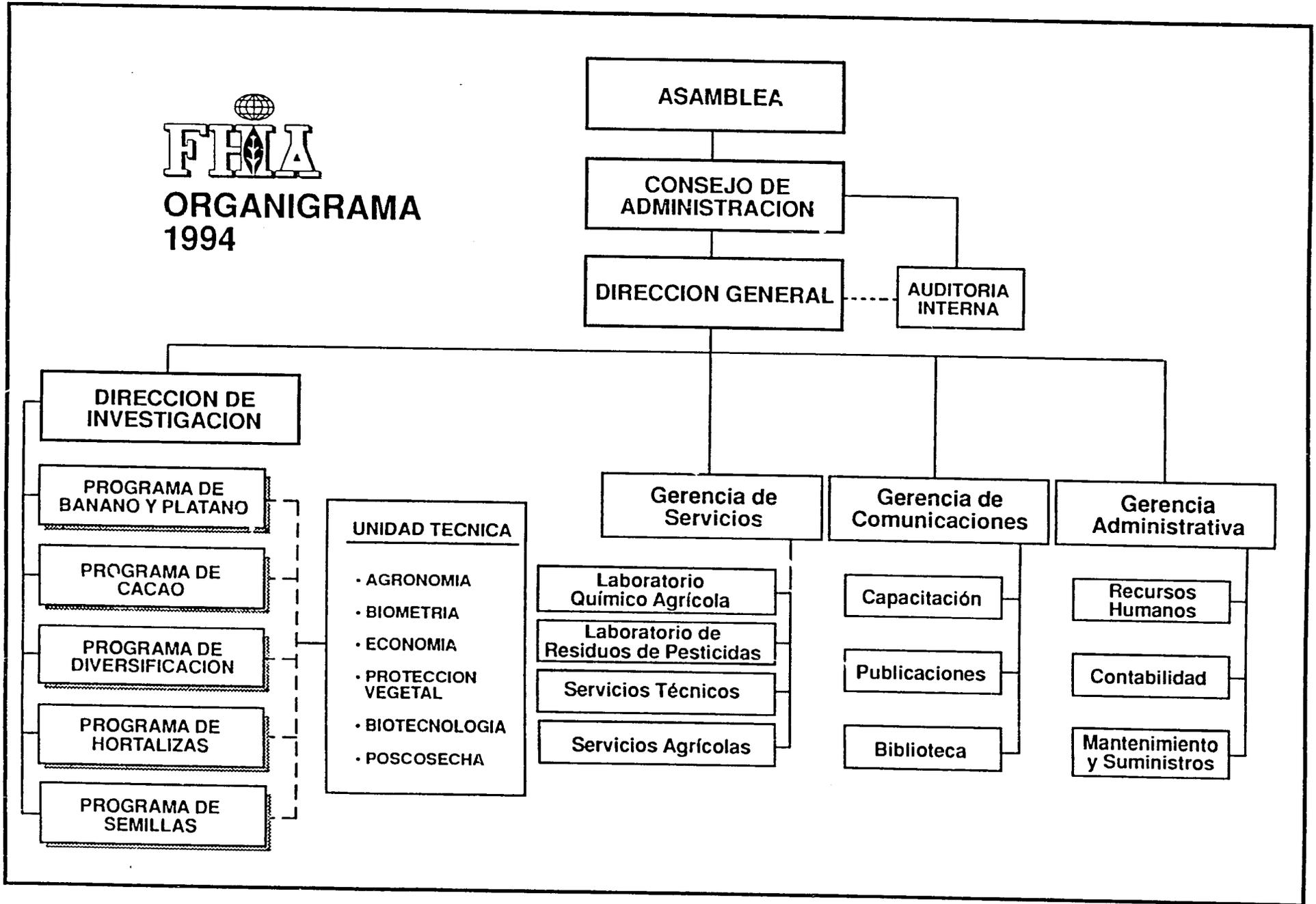
EXHIBIT B-1. FHIA - AGRIBUSINESS AND MARKETING OFFICE





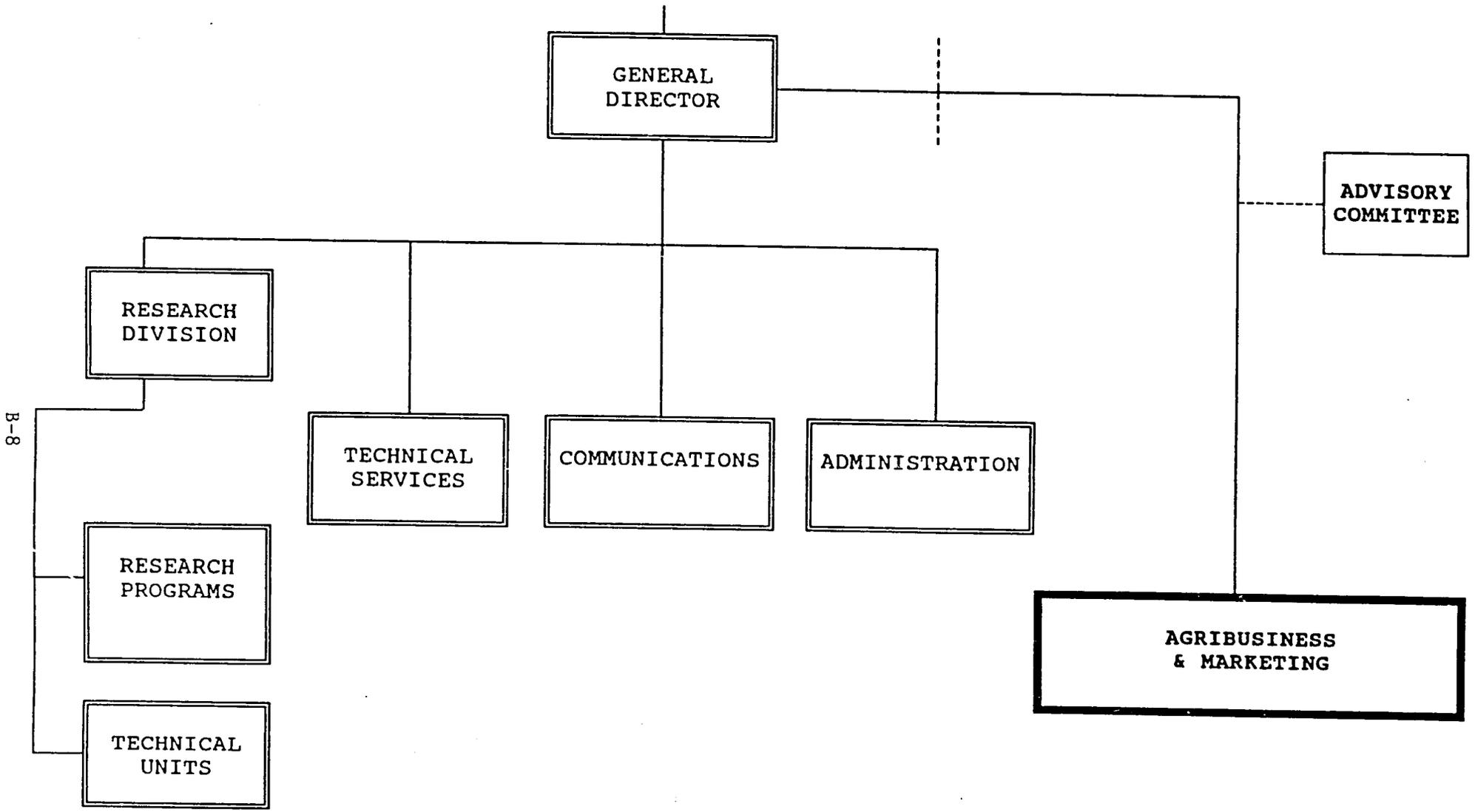
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EXHIBIT B-3. LOCATION OF NEW AGRIBUSINESS AND MARKETING OFFICE



11

**EXHIBIT B-4**  
**POSITION RESPONSIBILITY/REQUIREMENTS**

**Manager**

**Responsibilities:** Manage department; coordinate within FHIA; carry out strategic planning; maintain market and government contacts; promote pro-active sectorial policy; hire and fire staff; write staff evaluations.

**Requirements:** Strong business management and agricultural marketing background and experience; bilingual and computer literate; proven leadership and strong analytic, planning, supervising and communication skills; competent in report writing and training; social sensitivity toward smallholders, rural women development, and environmental protection.

**Executive Secretary**

**Responsibilities:** Assist the department manager with secretarial and office administration; coordinate and manage office support staff; assist the department staff in coordinating FHIA's personnel and administrative requirements; arrange and coordinate meetings and travel schedules.

**Requirements:** High computer literacy, word processing, document editing, spreadsheets; fully bilingual, short-hand, filing and office management experience.

**Market Research Coordinator**

**Responsibilities:** Manage information center and commodity price database; carry out intelligence gathering and dissemination; perform routine market analysis; prepare reports; maintain close linkages to Trade and Promotional Services section; oversee information dissemination (internal and external).

**Requirements:** Background in agricultural marketing research; high computer literacy; strong research, analytic and communication skills; experience in report writing; bilingual.

**Database Analyst**

**Responsibilities:** Assist market research coordinator; maintain documentation/subscriptions; coordinate information dissemination.

**Requirements:** Strong computer networking, analytic and reporting skills; experienced in market information analysis; bilingual; experience in setting up and managing document filing systems.

**Data Entry Assistant**

**Responsibilities:** Maintain commodity price database; generate routine price reports and other graphic reports.

**Requirements:** Knowledge of market terminology; hardware and software experience; reporting skills; working knowledge in English.

### **Computer Network Technician**

**Responsibilities:** Maintain computer network and hardware; light programming; set up software packages; assist in equipment selection; solve software and hardware problems.

**Requirements:** Tech-college degree in computer engineering and experience in setting and maintaining networks; word processing and spreadsheets; working knowledge in English.

### **Trade Promotion Coordinator**

**Responsibilities:** Maintain market linkages; liaise with other FHIA staff; coordinate with FHIA's field research staff; promote activities to farmers; serve as channel between the ABM and participating farmers; identify managerial and organizational needs of participating farmers and coordinate training activities.

**Requirements:** Agri-business management background and commercial trade experience; computer literate; strong leadership and communications skills; social sensitivity toward smallholders, rural women development, and environmental protection.

### **Export Sales Assistant**

**Responsibilities:** Assist the trade promotion coordinator in coordinating trade promotion activities; coordinate information flow between market research to/from producers/exporters; assist farmers in securing trade services from outside sources; maintain and provide to the industry a "critical route" document for successful export shipment.

**Requirements:** College education; experience in agricultural exports and documentation; computer literate; working knowledge in English.

### **Farmer Organization Assistant**

**Responsibilities:** Provide leadership and hands-on training to smallholders in organization and management, business plan preparation, agricultural financing, and agro-industries.

**Requirements:** Management, financial and agricultural background, and hands-on experience with smallholders organizations; computer literate; strong leadership and communication skills; social sensitivity toward smallholders, rural women development, and environmental protection.

### **Office Support Assistants (two)**

**Responsibilities:** Assist with janitorial (one) and car driving (second).

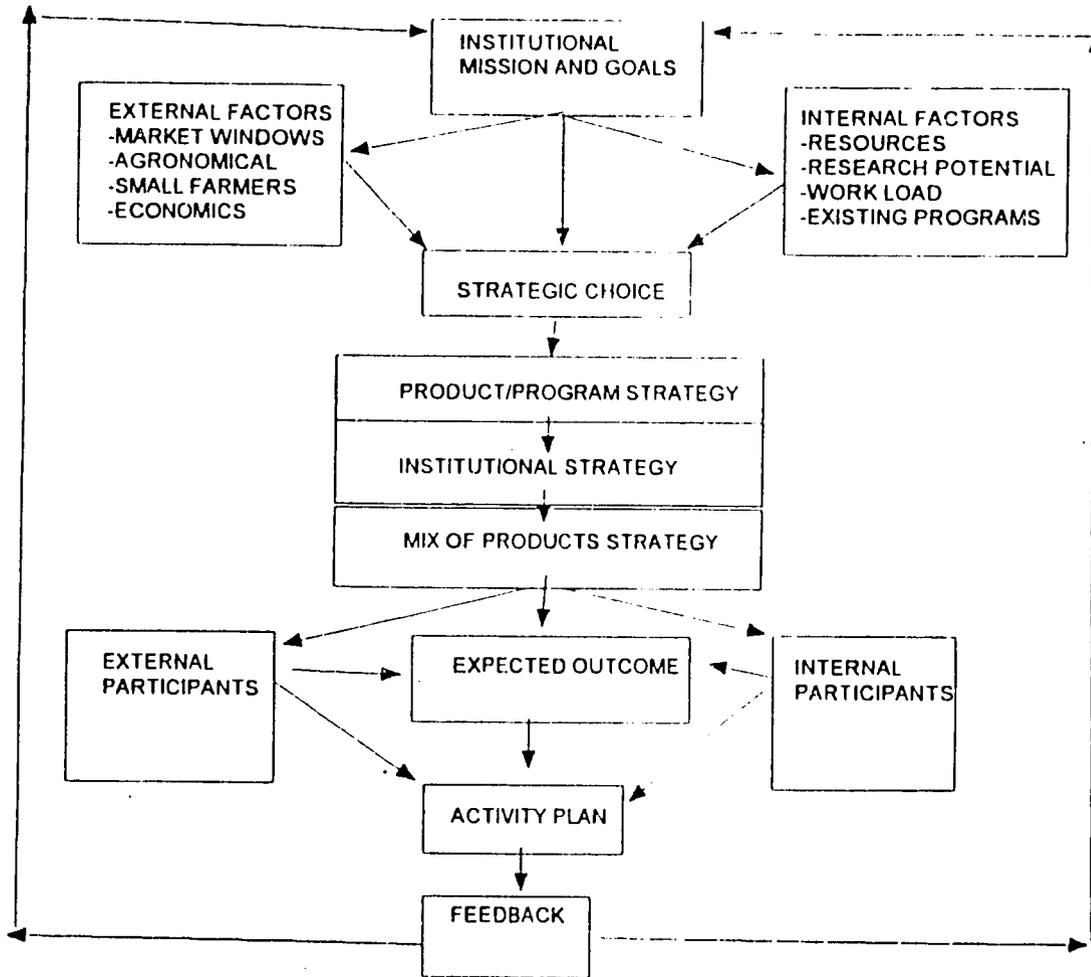
**Requirements:** Janitorial experience (one) and driver license and good driving record and experience (second).

### **Industry Advisor**

**Responsibilities:** Assist in setting up the project and in defining activities and procedures; provide hands-on training to the ABM staff; assist in the development of horizontal linkages between the project and rest of FHIA; develop linkages in target markets; represent FHIA overseas; oversee consultant and subcontractor contracts.

**Qualifications:** Strong agribusiness and marketing background and international experience, particularly in nontraditional agricultural exports; practical knowledge of Central American agricultural and export sectors.

EXHIBIT B-5 PROCESS TO DEVELOP STRATEGIC ANALYSES



15

## **ANNEX C**

### **MONITORING AND EVALUATION PLAN**

#### **A. External Evaluation**

An external evaluation is scheduled for early in calendar year 1996. Evaluators will work primarily from project design documents, progress reports, and other periodic project reports. The evaluators will visit representative field operations and interview project implementors and farmers. The evaluation will be contracted by FHIA. USAID will approve the Scope of Work of the evaluation before the contracting of the evaluation team and will approve the final report before payment by FHIA to the contractor. Included among the concerns that will be evaluated are the following:

##### **1. Administrative Concerns**

- a. Financial data in consistent form showing income from all sources: USAID disbursements, fees for services, donations, and other sources.
- b. Expenses for all activities and services, including all procurement as required by USAID and FHIA regulations.
- c. Planned activities accomplished in a timely manner or rescheduled officially as required.
- d. Reports that detail progress toward project goals and targets, as set forth in the Project Paper, Logical Framework, and the Grant Agreement with FHIA.
- e. Progress in meeting fee generation targets as set forth in the table on page Section III.B.5.C.4.

##### **2. Technical Concerns**

- a. Do the farmers associated with the project fit into the description of "smallholder" farmer?
- b. Have all crops supported by the project been selected using the procedure established for the project?
- c. If any crops have been graduated, are they actually commercial and being exported?

- d. Evaluate the quality and completeness of the publications and training provided under this project.
- e. Evaluate compliance with the environmental monitoring program described in Section VI. B. of this report.

### **3. Social, Cultural, and Economic Concerns**

- a. Are women and men given equal access to project activities?
- b. Are the methods for production and export preparation appropriate for smallholder participation?
- c. Have incomes for participating smallholder farmers increased due to project interventions? By how much?
- d. Are export crop sales meeting expectations of the project? Of the plans for each crop?

### **4. Data Reporting Requirements**

The evaluation report will include the following data. All data will be disaggregated by farmer type (smallholder, mid scale and large scale farmers) and gender as appropriate.

- a. Farmers participating in the project; farmers that have exported; farmers that have not yet exported.
- b. Organizations that have participated in project activities.
- c. Fees earned by FHIA directly attributable to the Project.
- d. Training provided to project researchers, farmers, and others.
- e. Summary of all marketing activities accomplished by the project to date.

### **5. Recommendations**

The report will present lessons learned and recommendations for mid-course changes or additions required to accomplish the Project Purpose.

## ANNEX D

### SOCIAL SOUNDNESS ANALYSIS

#### I. BENEFICIARIES

In this section, it is assumed that FHIA will continue researching crops from cultivation through harvest, post-harvest handling, and marketing access and acceptability. Smallholders in particular have lacked access to information on appropriate technology, international standards, packaging requirements, pesticide residues, and market contacts and brokering systems for nontraditional agricultural exports. This project addresses that vacuum.

##### A. Direct Beneficiaries

###### 1. Farmers

Approximately 3,000 ABM client smallholder farmers will be direct project beneficiaries. It is expected that these smallholder farmers will benefit from increased incomes averaging 15% in real terms over the life of project. Beneficiaries will be individual smallholder farmers through LUPE, as well as groups of smallholder farmers associated with the more advanced and better organized cooperatives that are working with FHIA and other USAID projects such as the Small Farmer Agribusiness Development Project (522-0383). They will benefit not only from the research and technology package available from FHIA (in its traditional research role), but also from the newly accessed commercialization and marketing services. Not all smallholder farmers are likely to benefit in the same degree, however.

Smallholders (in this project proposal document defined as those with land holding of between two and five hectares) have been identified as a target population for ABM. The overwhelming majority of Honduran farmers fall within that classification. The recently enacted Law for the Modernization and Development of the Agricultural Sector that legalized land rental may increase the number of smallholders available to collaborate with FHIA on export crops. In addition, a preliminary study shows that the Central American Free Trade Agreement is benefitting smallholders because it increases legal competition by disregarding the destination for the product (Tablada, personal communication). As knowledge of these changes spreads, and the capacity of FHIA to distribute a combination of technical expertise with marketing information expands, increasing numbers of smallholders should be willing to produce export crops.

Many of the crops selected for research and promotion should be readily acceptable to smallholders. For this to be the case, several additional factors need to be considered in the crop selection process. For example, smallholders have less access

to technology and therefore are more disadvantaged than medium- and large-scale farmers in understanding the risks and benefits of export crop production. Known crops, particularly those with an already established local or regional market as a buffer, may be less subject to extreme price fluctuations. These crops, e.g., plantain, pineapple and black pepper, will be good candidates for early selection by this project. Smallholders are likely to prefer crops that yield more predictable profits. Crops that promise great profits but that present a series of factors totally beyond the smallholder's control, such as climatic conditions, labor availability, transportation, and windows of opportunity, are crops that will be introduced to those groups which have gained experience with other, less risky crops. Several smallholder farmer organizations such as the cooperatives Fruta del Sol and COHORSIL are already in this position.

While medium- and large-scale farmers are likely to engage in export production, the availability of additional services in commercialization and marketing from FHIA for a fee will provide needed extra assistance to these entrepreneurs. These are also the farmers who could proportionately benefit most from the technology and marketing services offered by FHIA due to their greater potential volume of exports. Medium- and large-scale farmers are generally more willing to experiment with crops new to the area, and may themselves suggest new crops. In addition, it should be noted that it is not uncommon for smallholders to monitor the cultivation practices and productivity of new crops on nearby larger farms before deciding whether to introduce them onto their own farms. The smallholder farmer has in the past found the opportunity to export in conjunction with these larger producers, thereby reducing financial risk. The project will continue to build upon these established relationships and to develop new relationships between smallholder producers and large scale exporters.

## 2. Laborers

NTAE crops usually require more intensive labor input than traditional crops. To the extent that the cultivation of NTAEs increases, the demand for laborers is also likely to increase. Evidence shows that a large percentage of these workers are women. The project will ensure that these workers receive training without consideration of gender. The project will also analyze the special constraints that prevent women from participating in the project, and will devise mechanisms to resolve these constraints (lack of transportation, the need for child care, etc). The amount of increased labor demand will depend on the interaction of a number of factors, including:

- **Crops chosen.** Labor demands vary greatly in relation to specific crops. For example, a hectare of tomatoes requires 260 person-days of labor, black pepper requires twice as much, and a hectare of green peppers or asparagus three-times as much labor as tomatoes (FHIA).
- **Proportion of land for each crop.** The relative proportions of land used

for different crops will affect labor demands. If all the land available for NTAEs were planted with asparagus the overall demand for labor would be three times as great as if all the land were planted with tomatoes.

**Absolute area planted with NTAEs.** The larger the cultivated land area the greater the potential demand for labor.

Women are more likely than men to benefit as laborers in the cultivation and harvesting of many nontraditional products, because nontraditional exports often require greater attention to quality control and careful handling. For example, although the cultivation tasks associated with staked cucumbers are generally gender-neutral, women are explicitly preferred for the task of guiding plants to the stake. For harvesting, men cut the stems of the cucumbers, and women follow, placing the cucumbers into baskets.

If a value-added activity is associated with the product, all evidence suggests that women are clearly likely to benefit from the associated employment opportunities. For example, women comprise approximately 95 percent of the packers for cucumbers, and more than 75 percent of the packers for melons. When vegetables are processed, packaged in small amounts, or chopped for canning or freezing, or when shrimp are shelled and deveined, the workforce is almost exclusively female. What must be kept in mind, however, is that the total amount of labor employed for post-harvest activities is always proportionately less than the total labor required for pre-harvest (Alberti, 1991). The labor demands for value-added activities are frequently in the range of one-fifth to one-sixth of the labor demands for production.

It is estimated that 6,000 poor people will receive more than 60 days of employment generated from the activities of this project. At least 30% will be women. Honduran labor laws as international labor standards will be strictly observed in this project.

### **3. Commercial Enterprises**

Commercial enterprises have served both as catalysts and as beneficiaries of the research and investigative expertise of FHIA. For example, several large-scale farmers with connections to the meat packing industry in Honduras prompted FHIA's work in black pepper. The meat packing industry uses large quantities of black pepper, all of which was being imported. These farmers were aware that FHIA was conducting trials with black pepper. They proposed that FHIA expand their research to field trials, which were successful. They then contracted for technical assistance from FHIA for black pepper production.



#### **4. FHIA and its Personnel**

From an institutional perspective, FHIA is a primary beneficiary. By incorporating ABM into its general structure, FHIA will be better able to gain market access for its products. Also, as an institution predicated on agricultural investigation, it will be better able to respond to problems related to a crop's cultivation or handling. At the same time, the marketing focus will allow FHIA to monitor and adjust to changing trends in supply and demand by introducing new crops or modifying characteristics of existing crops. These complementary activities will increase FHIA's relevance to farmers and the farming population, thereby enhancing the institution's long-term viability and potential for sustainability.

FHIA personnel will benefit by being exposed to new information, learning opportunities, and training, especially in marketing and technology transfer. New employment opportunities should result. These opportunities will be open equally to women and men.

#### **B. Indirect Beneficiaries**

Indirect beneficiaries are those persons or entities who would be influenced secondarily due to the implementation of the proposed activity.

##### **1. Communities Where NTAEs are Produced**

Households and communities where nontraditional agricultural exports are produced are likely to benefit indirectly from the proposed project because of increased smallholder incomes from crop production, increased employment, and thus increased access to cash, in the area. This is especially true where wage employment is available for longer periods throughout the year, and over a number of years. Recent studies also suggest a relationship between reliable wages to female heads-of-households and improved nutrition and increased educational opportunities for children (Alberti, 1991).

##### **2. General Population**

The general population is likely to benefit from the greater availability throughout the year of nontraditional agricultural products, including a more extensive variety of fruits and vegetables. In addition, increased commercialization often leads to increased participation in regional and international markets, not necessarily agricultural.

Readily available market information aids smallholder farmers to optimize profits by enabling them to better time the production and harvesting of their crops. Open trade between countries in the region has had the effect of increasing competition for locally produced crops, generating higher profits for the producers. Increased farm profits

result in increased demand, resulting in an increased supply of goods and services from the larger economy.

## **II. ISSUES**

### **A. Labor Code and Short-term Contracts**

Labor laws for agricultural contract employees may limit workers' opportunities for long-term employment. In the agricultural sector, a contract of less than 200 days per year can legally provide no benefits (e.g., social security) nor any employment obligations for either the worker or the employer. A contract of 200 days or more, regardless of the sector, makes the worker a permanent employee with all the attendant benefits implied.

Many workers do not realize that the agricultural sector permits 200-day contracts without benefits and obligations. As a result, many employers choose not to use the longer-term temporary contracts to avoid misunderstanding and conflict with workers. They prefer instead to treat workers as trial employees. Under trial employee contracts, the first 59 days are considered a trial period and employment can be terminated by either the employer or the employee with no obligation on either side. The same person cannot be hired for the same position until at least another 59 days have passed. When experience is not important, the result can be a complete turnover in workers over several months. Labor law instruction will be included in training provided by the project to all project collaborators.

### **B. Exclusion of Geographic Areas Due to Climatic Specificity of Crops**

Different crops require specific climatic and environmental conditions. If this is not taken into account, the crop selection process could result in the identification of multiple crops appropriate for one area, to the exclusion of crops appropriate to other geographic areas. This is particularly likely in certain geographic regions suitable for a limited range of crops, as in northwest and southern Honduras. Regardless, every effort will be made to find appropriate export crops for these regions.

### **C. Seasonality of Crops and Market Windows**

The seasonality of crops and absolute nature of market windows can create a boom-and-bust cycle in production areas. Value-added activities, storage facilities, and complementary off-season crops can help level out earnings and provide a more steady income to smallholders and agricultural laborers.

Irrigation has made it possible to farm many areas year-round. The international market windows are concentrated between November and March. These are also the months when traditional regional crops are more plentiful. It may be possible to counterbalance the months of lesser demand in the international market with crops

targeting the regional market. Open trade in the region has increased the viability and potential profitability of such ventures. Capitalizing on complementary off-season markets would additionally provide a more continual source of income in production areas.

#### **D. Gender Constraints**

##### **1. Participation of Women**

The 1988 Census indicates that 21.7 percent of households are headed by women. Women represent 27.3 percent of urban heads-of-household, and 17.8 percent of rural heads-of-households. More than half of all female heads-of-household (52.3 percent) are concentrated in urban areas (Mazier, 1991).

At first glance, the data seem to suggest that 15 percent or more of the participants in any agricultural project, including ABM, would be women. Upon closer examination, however, it becomes evident that the percentage of women farmers is likely to be less. Several reasons explain the apparent discrepancy.

First, the least amount of land considered a viable holding for participation in export production is two hectares. However, a substantial proportion of subsistence farmers have access to less than two hectares. Female heads-of-households tend to be concentrated at the lower end of the spectrum in measures of access to resources, including land. It is thus reasonable to assume that even women who are heads-of-households and who have access to land will not meet the minimum land requirement. They are eliminated even before taking other characteristics (e.g., irrigation, slope, and quality of soil) into account.

Second, until 1992, it was not possible for women to hold title to agricultural land even if they were female heads-of-households. The only exception made was for women who were widowed and who had child dependents under 16 years of age. These widowed women were permitted to hold title to agricultural land until the first male child turned sixteen, at which time the legal title was transferred to him. Since it has been less than two years since the law was repealed, it is unlikely that many women have obtained or retained title to land.

Third, a baseline survey conducted for the LUPE project found that less than 10 percent of the landholders in that project area are women, even though the landholding of participants in that project are clearly marginal (hillside with a minimum slope of 15 degrees). Taking these factors into account, it might be more reasonable and realistic to target a 6 to 8 percent level of female participation as landowners or renters directly involved in the cultivation of crops supported by FHIA. As discussed above, women will provide much of the labor in production and shipment of export crops. Without exception, men and women will be given equal access to all project funded activities.



## **2. Smallholder Access to Information via Cooperatives and Associations**

Working with farmers' cooperatives and associations increases the possibilities that farmers, especially smallholder farmers, have access to technical assistance for production and marketing information. However, women from households with access to land are rarely members or associates of these organizations, even when they are heads-of-households. Preliminary data indicate that women constitute a minor portion of the membership of agricultural cooperatives (generally less than 1 percent), but a more significant portion of farmers' associations when the focus is marketing. For example, in a farming cooperative in Comayagua, 4 out of 126 members are women; in Siguatepeque, 2 out of 328; and in La Esperanza, 2 out of 89. In contrast, in a marketing association in La Brea the number of members who are female was described as "substantial." The project will work with both smallholder farmers associations and will actively work with selected individual smallholder farmers through such organizations as LUPE. This will expand the reach of the project and, where possible, actively recruit women farmers.

## **3. Impact of Export Processing Zones on Regional Labor Availability**

Ideally, export processing zones should be located where the potential for agricultural production is limited. This is not the case, however. The Sula valley is the site of several export processing zones and is also one of the two more extensive agricultural production zones in the country (the Comayagua Valley is the other). An export processing zone is due to open shortly in Comayagua. The export processing zones rely heavily on female labor, with an estimated 75 percent of the labor provided by women in 1993, down from nearly 85 percent in 1992 (Waterhouse/ESA, 1993). This puts processing zones in direct competition with NTAEs for female labor for value-added agricultural tasks. This may explain the decline over the last year in the percentage of employees who are female even though the total number of jobs increased.

### **E. Possible Strategies**

#### **1. Reaching Smallholders through Intercropping**

Plantain and cacao are crops grown by smallholders as well as large-scale farmers, and are crops for which FHIA has been conducting research. These are also dominant cash crops for the smallholders on the north coast. It is doubtful, however, that these crops will be included among the new crops that ABM selects to promote. With some crops women in house gardens may produce such crops as black pepper where quality control is of less importance.

A strategy that ABM might consider is to select a crop that smallholders intercrop with cacao and/or plantain as one of its focus export crops. Ornamental plants are

one possibility. Another approach would be to select a by-product, such as banana leaves, for export.

## **2. Coordinating with NGOs Facilitating Credit**

Lack of access to capital for agricultural inputs is a continuing dilemma faced by smallholders. Even a farming cooperative in La Esperanza that has 30 manzanas of communal property and access to limited irrigation has only planted 15 manzanas because it lacked the capital to purchase the inputs for vegetables.

FHIA could consider linkages to NGOs with credit components that work in different regions of the country, such as the Guayape Project in Olancho. In one area in La Esperanza, farmers received credit for agricultural inputs on the condition that they follow the technical assistance of the FHIA representatives. It was the individual farmers, however, and not FHIA, who assumed the risk of the loans. The USAID Small Farmers Organizational Strengthening Project (522-0252) works with rural credit unions. This project will liaise with the other projects to assist in evaluating the actual credit risk associated with export production.

## **3. Targeting Women as Marketers**

As the discussion above indicates, nearly 25 percent of the heads-of-households are women. However, they are not likely to be represented in that proportion as farmers with at least two hectares of land suitable for agricultural export production. Women are much more likely to participate in marketing, whatever the area of the country.

As commercialization and marketing information is disseminated to smallholders, particularly if the vehicle is farmer cooperatives and associations, efforts should be made to explicitly include women with marketing experience or interest to attend the presentations. The Junta Directiva of the cooperative and associations should inform and actively encourage the participation of both women and men in upcoming events. In addition, the commodity boards should actively recruit the participation and employment of women.

## **4. Modifying Agricultural Techniques: Traditional versus Nontraditional Crops**

One of the reasons given to explain the reluctance of agricultural extensionists to work with smallholders is their resistance to change, particularly with regard to cultivation techniques. This resistance does not seem to extend to nontraditional agricultural products, however.

Several individuals who work with smallholders, including extensionists, commented on how willing farmers were to seek and accept technical assistance for nontraditional crops. This observation underscores the importance of providing farmers with

technical assistance appropriate to their conditions and highlights the relevance of an interactive system of extension and feedback to keep smallholders and extensionists informed.

## **5. Benefitting Smallholders from the Experiences of Large Producers**

Large producers are generally able to take the risks associated with introducing new agricultural products into an area. Even though smallholders are the preferred target population identified for the project, the project should carefully consider whether a crop new to an area should be introduced to smallholders if a large-scale farmer has not yet tested that crop and found it acceptable. In addition, even if successful, smallholders may not be able to produce in sufficient quantities to export. This points out the importance of close relationships with larger exporters and indicates that there are great advantages in cooperative packing and shipping of some crops. It should also be noted that even "large" exporters in Honduras do not generally produce enough to fully use the capacities of even the smallest packing plants. Improving utilization of in-place equipment will benefit all producers.





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ANNEX II

UNCLAS

SECSTATE 138165

21 MAY 94 11 32

USAID/HONDURAS  
COMM UNIT

ACTION: USAID-1  
INFO: TOTAL-4 JAO-1 ECON-1 DCM-1 AMB-1

DISTRIBUTION: AID  
CHARGE: AID

VZCZCTGO396  
RR RUEHTG  
DE RUEHC #8165/01 1440830  
ZNR UUUUU ZZH  
R 240827Z MAY 94  
FM SECSTATE WASHDC  
TO RUEHTG/AMEMBASSY TEGUCIGALPA 2747  
INFO RUEAIIA/CIA WASHDC 0838  
RUEKJCS/DOD WASHDC 8778  
BT  
UNCLAS SECTION 01 OF 05 STATE 138165

AIBAC FOR MISSION DIRECTOR BROWN

E.O. 12356: N/A

TAGS:

SUBJECT: HONDURAS FY 95-96 ACTION PLAN REVIEW

NAN  
SM

1. THE USAID/HONDURAS FY 95-96 ACTION PLAN WAS REVIEWED ON MAY 3, 1994. AA/LAC MARK SCHNEIDER CHAIRED THE DAEC REVIEW AND PARTICIPANTS INCLUDED REPRESENTATIVES FROM LAC/DR, LAC/DPP, LAC/TI, LAC/DI, LAC/CEN, PPC, BHR/FFP, LPA/LEG, THE M BUREAU AND THE GLOBAL BUREAU. MISSION DIRECTOR MARSHALL BROWN PRESENTED THE ACTION PLAN, WITH MISSION REPRESENTATIVES LEON WASKIN AND LORRAINE SIMARD ATTENDING.

2. THE SUBJECT ACTION PLAN WAS APPROVED BY THE BUREAU, SUBJECT TO THE CONCLUSIONS AND GUIDANCE NOTED BELOW.

A. THE AA/LAC CONGRATULATED USAID/HONDURAS FOR HAVING PREPARED A VERY WELL-THOUGHT OUT ACTION PLAN, DRAWING PARTICULAR ATTENTION TO THE CLEAR EFFORT THE MISSION HAS MADE TO MEASURE PROGRAM PERFORMANCE. HE SUGGESTED THAT MISSION REPRESENTATIVES MEET WITH LAC/DR AND PPC/POL TO DISCUSS WAYS IN WHICH PROGRESS INDICATORS THAT HONDURAS IS USING MIGHT BE REPLICATED AS PART OF THE AGENCY-WIDE EFFORT TO IMPROVE MEASUREMENT OF PROGRAM IMPACT. AN

INITIAL MEETING WAS HELD AND THE MISSION WILL CONTINUE TO WORK WITH PPC ON THIS SUBJECT.

OFFICE	DATE	INITIALS
MD		
DMD		
PLA		
EXO		
EXOP		
EXOD		
EXOPER		
DP	DP	
DF		
CONT		
RD		
HRD		
HRD/E		
HRD/H		
HRD/P		
HRD/FFP		
HRD/SP		
PSP		
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OTHER		
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DUE DATE	06/03	
ACTION TAKEN		
ATTACHM		
INITIALS		

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SECSTATE 138165

BT

ROLE IN INVESTIGATING ALLEGATIONS OF MISCONDUCT AND FRAUD. IT REFERS CASES WHERE SUITABLE EVIDENCE IS DEVELOPED TO THE PUBLIC PROSECUTOR'S (PROCURADURIA) FOR PROSECUTION. AN APPARENT LACK OF CLARITY IN THE ROLE OF EACH INSTITUTION LEADS THE LAC BUREAU TO TWO CONCERNS: FIRST, WHY THE CONTROLARIA IS BEING STRENGTHENED AS OPPOSED TO IMPROVING THE PROCURADURIA'S INVESTIGATIVE ROLE; SECOND, WHETHER THE INCREASED ROLE FOR THE CONTROLARIA IN UNCOVERING FRAUD AND MISCONDUCT WILL LEAD TO DECREASED EFFECTIVENESS OF ITS AUDITING FUNCTION. THE MISSION BELIEVES THE ROLES OF THE TWO AGENCIES ARE APPROPRIATE AND THAT THE AUDITING ROLE OF CONTROLARIA WILL NOT BE NEGATIVELY AFFECTED BY ITS INCREASED INVESTIGATIVE EFFORT.

O. ROLE OF THE HONDURAN AGRICULTURAL RESEARCH FOUNDATION (FHIA): UNDER THE PROPOSED SMALL FARMER EXPORT DEVELOPMENT PROJECT, FHIA WOULD TAKE ON A NEW ROLE OF PROMOTING NON-TRADITIONAL AGRICULTURAL PRODUCTION AND EXPORTS. THIS ROLE HAS BEEN CARRIED OUT BY THE HONDURAN FEDERATION OF AGRICULTURAL EXPORT PRODUCERS (FPX) UP UNTIL NOW. THE MISSION REPORTED THAT IT CONTINUES TO BE TROUBLED BY FPX, AS IT HAS FAILED TO DEVELOP INTO A MATURE INSTITUTION DESPITE CONSIDERABLE USAID SUPPORT OVER THE LAST NINE YEARS. IN RESPONSE TO BUREAU CONCERN THAT FHIA'S NEW ROLE COULD DRAW RESOURCES AWAY FROM ITS MAIN OBJECTIVE OF AGRICULTURAL RESEARCH, THE MISSION EXPLAINED THAT THE NEW FUNCTIONS WOULD BE CARRIED OUT BY A FOR-PROFIT SUBSIDIARY OF FHIA, WOULD INVOLVE FEW ADDITIONAL PERSONNEL, AND WOULD EXPAND OPPORTUNITIES FOR EFFECTIVE RESEARCH IN COOPERATION WITH SMALL FARMERS. THEREFORE, THE MISSION BELIEVES THIS NEW ROLE WOULD ENHANCE, RATHER THAN DETRACT FROM, FHIA'S ABILITY TO PERFORM ITS MAIN FUNCTION.

P. ROLE OF COOPERATIVE RESEARCH SUPPORT PROGRAMS  
UTS,  
IT WILL BE UNABLE TO CONTINUE SUPPORT TO THE SOIL MANAGEMENT CRSP, WHICH COMPLEMENTS MISSION PROGRAMS. THIS ANNOUNCEMENT LED TO A BROADER QUESTION OF WHETHER, GIVEN HONDURAS' UNIQUE SITUATION OF HAVING AN EXCELLENT IN-COUNTRY AGRICULTURAL RESEARCH INSTITUTION (FHIA), IT WOULD BE POSSIBLE TO DEVELOP A NEW KIND OF CRSP UNDER WHICH U.S. UNIVERSITIES AND FHIA COOPERATE IN CARRYING OUT FHIA'S PROGRAM, RATHER THAN HAVING PARALLEL AND UNCOORDINATED RESEARCH EFFORTS TAKE PLACE AS AT PRESENT. THIS APPROACH WOULD BE MORE SUPPORTIVE OF ACHIEVING MISSION OBJECTIVES. IT WAS AGREED THAT THE MISSION AND THE G BUREAU WOULD WORK TOGETHER TO EXPLORE THIS POSSIBILITY.

### 3. DECISIONS ON NEW ACTIVITY DESCRIPTIONS (NADS)

A. THE FOLLOWING ACTIVITIES WERE DISCUSSED AND

## APPROVED:

522-0216 HEALTH SECTOR II (AMENDMENT)  
522-0241 SMALL BUSINESS II (AMENDMENT)  
522-0340 MUNICIPAL DEVELOPMENT (AMENDMENT)  
522-0389 PRIVATE SECTOR POPULATION III (NEW)  
522-0399 SMALL FARMER EXPORT DEVELOPMENT (NEW)

AUTHORITY TO DESIGN AND AUTHORIZE THESE ACTIVITIES WITHOUT FURTHER BUREAU REVIEW IS HEREBY DELEGATED TO THE MISSION, SUBJECT TO THE FOLLOWING BUREAU RECOMMENDATIONS:

(1) IN AMENDING THE SMALL BUSINESS II PROJECT, THE MISSION SHOULD SEEK TO INCREASE THE MEMBERSHIP OF THE BOARD OF THE JOSE MARIA COVELO FOUNDATION TO EXPAND ITS DIVERSITY BY INCLUDING REPRESENTATIVES FROM BENEFICIARY MICROENTERPRISES.

(2) IN AMENDING THE BASIC EDUCATION AND SKILLS TRAINING PROJECT (AUTHORITY FOR WHICH WAS DELEGATED TO THE MISSION DURING LAST YEAR'S ACTION PLAN REVIEW), THE MISSION SHOULD EXPLORE THE POSSIBILITY OF ADDING EDUCATION FOR DEMOCRACY TO THE HONDURAN PRIMARY SCHOOL CURRICULUM. IN THIS REGARD, THE RELATED EXPERIENCES OF USAID/NICARAGUA MIGHT OFFER A USEFUL MODEL.

(3) IN AMENDING THE HEALTH SECTOR II PROJECT, IT WOULD BE DESIRABLE TO INCLUDE THE MATERNAL MORTALITY RATIO, AS AN INDICATOR OF GOAL ACHIEVEMENT, TO BE CONSISTENT WITH THE STRATEGIC OBJECTIVE. THE LAC REGIONAL ACCELERATED IMMUNIZATION II PROJECT (598-0786) SHOULD BE ADDED TO THE DISCUSSION OF LINKAGES WITH CENTRAL AND REGIONAL PROJECTS. THE ROLE OF USDH AND TECHNICAL ADVISORS IN AIDS AND CHILD SURVIVAL (TAACS) PERSONNEL IN SUPPORT OF THIS PROJECT NEEDS TO BE CLARIFIED.

(4) IN DEVELOPING THE PRIVATE SECTOR POPULATION III PROJECT, ONLY THE FERTILITY REDUCTION INDICATOR SHOULD BE USED AT THE GOAL LEVEL, SINCE THIS PROJECT DEALS EXCLUSIVELY WITH FAMILY PLANNING. THE AVAILABILITY OF UNEMPLOYED/UNDEREMPLOYED PHYSICIANS FOR THE COMMUNITY CLINICS PROGRAM SHOULD BE INVESTIGATED. UNLESS THERE ARE PHYSICIANS, SUCH PROGRAMS ARE UNLIKELY TO ATTRACT ENOUGH PARTICIPATION TO FUNCTION WELL. THE SECTION ON IMPACT OF THIS ACTIVITY SHOULD ACKNOWLEDGE THAT THE HEALTH SECTOR II PROJECT WILL ALSO CONTRIBUTE TO REDUCING THE TOTAL FERTILITY RATE--THE CURRENT LANGUAGE LEADS THE

READER TO THE CONCLUSION THAT THIS IS USAID'S ONLY EFFORT IN FAMILY PLANNING. ANALYSIS OF THE CURRENT DEGREE OF

To: Neil Levine@LPA@AIDW  
Cc:  
Bcc:  
From: Liliana Ayalde@LAC.CEN@AIDW  
Subject: CN/TN  
Date: Tuesday, September 27, 1994 9:24:15 LOC  
Attach:  
Certify: N  
Forwarded by: Neil Levine@LPA@AIDW

---

Forwarded to: Liliana Ayalde@LAC.CEN@AIDW  
Kenneth Ellis@LAC.CEN@AIDW  
Kraig H. Baier@LAC.CEN@AIDW  
Marshall Brown@MD@TEGUCIGALPA  
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Natasha Rosenberg@LAC.DPP@AIDW  
Cheryl Stradford@LAC.DPP@AIDW

cc:

Forwarded date: Tuesday, September 27, 1994 9:56:14 LOC  
Comments by: Neil Levine@LPA@AIDW  
Comments:

The Honduras Small Farmer Export Development and Small Business Development II  
CN and TN expired today without objection. Neil

Cheryl: Please prepare a cable to this effect

----- [Original Message] -----

Can you confirm that the TN (Small Business) and the CN (Small Farmer  
Development) for Honduras have expired? They are hanging on - waiting to get  
the green light before they obligate. Pls. let me know. Thanks. LA



**PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK**

**Project Title & Number: Small Farmer Export Development, 522-0399**

**Life of Project:  
From FY 94 to FY 98  
Total U.S. Funding: \$2,500,000**

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS/ COMMENTS
<p><u>GOAL:</u></p> <p>To enhance economic participation and increase the incomes of the poor.</p>	<p>Project supported export crop sales increase participating small farmer incomes by an average of at least 15% each year from current levels.</p>	<p>Project generated surveys and reports. LUPE annual household surveys.</p>	<p>1. GOH continues to support nontraditional export agriculture.</p>
	<p>Agriculture GDP growth of 5% by 1998.</p>	<p>GOH Agriculture census report.</p>	<p>2. International markets remain relatively free and open.</p>

2/94

**PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK**

**Project Title & Number: Small Farmer Export Development, 522-0399**

**Life of Project:  
From FY 24 to FY 28  
Total U.S. Funding: \$2,500,000**

PAGE 2

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS/ COMMENTS
<u>PROJECT PURPOSE:</u>	<u>EOPS:</u>		
To develop agricultural export crops and mechanisms that are appropriate for small farmer participation and which lead to increases in small farmer incomes.	\$14 million in cumulative sales of export crops attributable to the project, including \$5 million by participating small farmers.	Project generated reports.	Small farmers are willing to adopt new crops and follow production methods that produce export quality crops.
	3,000 small farmers, previously non-exporters, producing and exporting non-traditional export crops on a commercial basis.	Project generated reports. Reports from collaborating producer associations.	Markets, regional and international, remain strong and open.
	6,000 new seasonal jobs for poor rural men (40%) and women (60%) through the production of export crops in the final year of the project.	Project reports and surveys. Reports from collaborating producer associations and exporters.	Crop production and post-harvest methods that can be developed and that are implementable by small farmers and that result in export quality products.
	A sustainable capacity within FHIA and among selected small farmer producer associations to offer Honduran farmers export related market research and technical assistance.	Project evaluation.	

**PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK**

**Project Title & Number: Small Farmer Export Development, 522-0399**

**Life of Project:  
From FY 94 to FY 98  
Total U.S. Funding: \$2,500,000**

PAGE 3

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS/ COMMENTS
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**OUTPUTS:**

Five new non-traditional export crops selected for research, production and exports by small farmers.

Project generated reports. Visits to the field.

1,400 small farmers and extension workers (100 women and 1300 men) will have been trained in non-traditional crop production and export quality control.

Project reports on training offered.

1,700 small farmers, researchers and exporters will have been trained in environmental concerns and sustainable agriculture.

Project reports on training offered.

Establishment within FHIA of institutional mechanisms to transfer technology to small farmers.

Project evaluations.

An Agribusiness and Marketing Office will have been established within FHIA to generate information that will enable FHIA to better identify research and production priorities.

Project evaluations.

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**PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK**

Project Title & Number: Small Farmer Export Development, 522-0399

Life of Project:  
From FY 24 to FY 28  
Total U.S. Funding: \$2,500,000

PAGE 4

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS/ COMMENTS
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**INPUTS:**

(Budget by category)

1. Salaries	738,000	1. Controller reports, annual audits	1. Funds will be made available as
2. Travel and Per Diem	175,000		required through allocations on an
3. Administrative Support	116,000		annual bases.
4. Commodities	260,000		
5. Technical Assistance	362,000		
6. Subcontracts	455,000		
7. Training	100,000		
8. Monitoring and Evaluation	112,000		
9. Audits	28,000		
10. USAID Project Assistant	125,000		
11. Contingency	31,000		
<b>TOTAL</b>	<b>2,500,000</b>		

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## ANNEX IV

### ECONOMIC ANALYSIS

This is a high risk project. Opportunities in the most profitable non-traditional export crops -- cultivated shrimp, melons, grapefruit, and pineapples -- already have been largely exhausted. The remaining non-traditional export crops provide either less return or greater risk. Nevertheless, provisional data suggest that other non-traditional exports such as asparagus, ginger, onions, plantain, rambutan, raspberries -- warrant strong consideration on the part of small farmers.

#### FINANCIAL BENEFITS TO FARMERS

The financial returns from selected new non-traditional export crops -- asparagus, ginger, onions, plantains, and rambutan -- are sufficiently high to induce small farmers to secure requisite technology and produce the crops. Small farmers will adopt new technology and produce the crops if the financial returns exceed what they are earning through an alternate use of resources; in other words, if the financial returns exceed what they are earning from what they are producing now. Hence, we need to identify what crops those farmers who would be growing a given new non-traditional export crop are cultivating now. Those farmers who would consider growing asparagus, ginger, and onions are likely producing corn now; those who would entertain production of plantains are producing plantains now without improved technology; and for rambutan the relevant alternative is cocoa. The table below provides data on the financial returns from the non-traditional export crops and on alternate use of resources.

#### Net Income per Hectare (U.S.\$)

		<u>Alternate use of Resources</u>
Asparagus	2,800	145 (corn)
Ginger	10,000	145 (corn)
Onions	1,400	145 (corn)
Plantains	1,863	50 (plantains without improved technology)
Rambutan	2,110	440 (cocoa)

The subsequent table provides details on the manner in which the numbers in the above table were computed.

**Net Income per Hectare  
(U.S.\$)  
Non-traditional Crops**

<u>Crop</u>	<u>Boxes/ha</u>	<u>Price/Box (U.S.\$)</u>	<u>Gross Income/ha</u>	<u>Costs/ha</u>	<u>Net Income/ha</u>
Asparagus	750 (11 Lb.)	18	13,500	10,700	2,800
Ginger	1000 (30 Lb.)	17	17,000	7,000	10,000
Onions	700 (53 Lb.)	14	9,800	8,400	1,400
Plantains	600 (50 Lb.)	6	3,600	1,737	1,863
Rambutan	2500 (2 Kg)	3	7,500	5,390	2,110

**Alternative Uses**

Maize	70 <sup>1/</sup>	7.36	515	370	145
Plantains <sup>2/</sup>	100 (50 Lb.)	6	600	550	50
Cocoa	600 <sup>3/</sup>	1.1	660	220	440

<sup>1/</sup> Bushels per hectare.

<sup>2/</sup> Without control of Sigatoka disease which improved technology would provide, there is almost no income.

<sup>3/</sup> Kilograms.

These data were computed based on on-the-ground farm experience and field trials. In computing these data, we have made reasonable assumptions about prices, yields, and costs. In all cases, the financial returns from producing the non-traditional export crops exceed by a wide margin the returns that the small farmers are getting from their present activities. The wide margin to some extent reflects what can be achieved under ideal circumstances, including having good growing conditions and excellent market intelligence. Nonetheless, even if we were to scale back the returns, there would still appear to be ample encouragement to the small farmers to adopt the requisite technology.

### **COST-BENEFIT ANALYSIS**

To determine the economic viability of a project, costs and benefits are computed, an internal rate of return is calculated, and that internal rate of return is compared to some benchmark rate of return -- normally the opportunity cost of capital. For the purposes of this project, we assume a 15 year cost/benefit stream. Also, the subsequent analysis is in real terms.

Project costs include USAID expenditures and FHIA and GOH counterpart allocations. The USAID expenditures decline from their high in FY 1995, reaching zero in FY 1999. FHIA and GOH counterpart allocations are made in each year of the project. Those that are made after the USAID project expenditures lapse provide much needed market intelligence.

Benefits commence in FY 1995, peaking in FY 1998 -- the last year of the project -- and subsequently remaining the same. From the standpoint of the small farmer, the economic benefits are the increases in incomes received as the farmer adopts new technology and switches production from say maize to a non-traditional export crop, including asparagus, ginger, onions, plantains, rambutan and raspberries. The target group consists of 3,000 smallholders.

While potential increases in income range as high as seventy-fold for ginger to as low as five-fold in the case of rambutan, we will assume very conservatively that small farmers adopting the requisite technology double their incomes which on average now stands at \$290 per annum. Such doubling would generate an internal real rate of return of a little more than 20%, suggesting that the project is well worth undertaking. (The opportunity cost of capital in real terms is in the neighborhood of 5-7%.) The rate of return, however, is very sensitive to the number of small farmer participants. If we reduce by half to 1,500 the number of farmers who adopt the technology, the rate of return falls to less than 5%.

The project also will produce other economic benefits. We expect the activities of each of the smallholders to produce additional seasonal employment, individuals working in areas such as production, packing, transportation, etc. While medium and larger-size farmers are not the target group of this project, they too will accrue gains from the project. There will be second round multiplier effects. The smallholder and the individuals that are seasonally employed, as well as the medium and larger-size farmers, spend monies in the communities in which they reside, purchasing consumer goods and productive sector inputs, and these purchases in turn produce additional income and employment for others.

In addition, the project will generate much needed foreign exchange for the Honduran economy. By 1999, we estimate that the project will be producing additional foreign exchange approaching \$5 million per annum with similar gains in subsequent years. That is consistent with the findings of a 1991 USAID study and other research on USAID export development activities in Central America. Those findings suggest that every dollar USAID invests in agricultural export promotion generates eventually between \$1.67 and \$5.44 in agricultural exports per annum.

**5C(2) - ASSISTANCE CHECKLIST**

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

**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

1. (a) The project will expand international trade by increasing Honduras' non-traditional agricultural exports. (b) It will do so by working with small, private farmers, in many cases providing services to them through credit unions and cooperatives of which they are members. (c) By expanding the number of producers and facilitating market contacts, SFED will discourage monopolistic practices. (d) By extending the technologies needed to produce export-quality crops to small farmers, SFED will improve the technical efficiency of agriculture. (e) The project will have no impact on labor unions.

2. It is possible that U.S. investors may wish to invest in production or marketing initiatives supported by SFED. Any such investment, however, will be strictly constrained by the terms of Section 547 of

encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

the FY 1994 Appropriations Act.

### 3. Congressional Notification

a. **General requirement** (FY 1994 Appropriations Act Sec. 515; 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 Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?

3.a. Notice of USAID's intent to obligate funds to this project in FY 1994 was sent to Congress on September 12, 1991. This Notification expired without objection on September 27.

b. **Special notification requirement** (FY 1994 Appropriations Act Sec. 520): Are all activities proposed for obligation subject to prior congressional notification?

b. Yes

c. **Notice of account transfer** (FY 1994 Appropriations Act Sec. 509): 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. N/A

c. **Cash transfers and nonproject sector assistance** (FY 1994 Appropriations Act Sec. 537(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

c. N/A

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will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

**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)): 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. N/A

**7. Cash Transfer/Nonproject Sector Assistance Requirements** (FY 1994 Appropriations Act Sec. 537). If assistance is in the form of a cash transfer or nonproject sector assistance:

7. N/A

a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not commingled with any other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

b. **Local currencies:** 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?

(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?

(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?

(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?

**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?

8. N/A

**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.

9. See A.1 above

**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

10. See A.2 above

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assistance programs (including use of private trade channels and the services of U.S. private enterprise).

## 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.

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.a. The GOH will contribute up to the local currency equivalent of \$769,230, while the project's principal implementing agent (FHIA) will make a contribution of not less than \$867,000 in in-kind services.

b. The U.S. owns no excess Honduran currency.

## 12. Trade Restrictions

a. **Surplus Commodities** (FY 1994 Appropriations Act Sec. 513(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?

b. **Textiles (Lautenberg Amendment)** (FY 1994 Appropriations Act Sec. 513(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

12.a. No. Export crops produced by Honduran farmers will be competitive with U.S. production of the same or similar crops only when these crops are out of season in the U.S.

b. No

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 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?

**13. Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)(as referenced in section 532(d) of the FY 1993 Appropriations Act): 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. (a) No

(b) No

**14. PVO Assistance**

**a. Auditing and registration** (FY 1994 Appropriations Act Sec. 568): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

14.a. N/A

**b. Funding sources** (FY 1994 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

b. N/A

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international activities from sources other than the United States Government?

**15. 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).

15. N/A. This Agreement is below the \$25 million threshold established for implementing Case-Zablocki.

**16. 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,

16. Yes

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capacity, mass and weight), through the implementation stage?

17. **Abortions** (FAA Sec. 104(f); FY 1994 Appropriations Act, Title II, under heading "Population, DA," and Sec. 518):

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?

17.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?

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?

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? (As a legal matter, DA only.)

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? (As a legal matter, DA only.)

e. N/A

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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?

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?

g. No

**18. 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?

18. Yes. FHIA will conduct outreach efforts to small farmers largely through cooperatives. The income generated by sales of export crops is intended to help poor rural farmers toward a better life.

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

a. **Use of currencies (FAA Secs. 612(b), 636(h); FY 1994 Appropriations Act Secs. 503, 505):** Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

19.a. N/A. The U.S. owns no excess Honduran currencies.

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?

b. No

**20. 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?

**20.a. Yes**

**b. U.S. procurement** (FAA Sec. 604(a): Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section?

**b. Yes**

**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?

**c. N/A. Honduras does not so discriminate.**

**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.)

**d. N/A**

**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

**e. No. The project will not finance construction or engineering services.**

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.)

**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 for 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?

**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 undue interference with domestic programs?

**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?

f. No. The Project Authorization complies with the terms of Section 901(b) of the Merchant Marine Act of 1936, as amended.

g. Yes. All technical assistance will come from private sources on a contract basis. No technical assistance will be obtained from other Federal agencies.

h. Yes

**i. Consulting services** (FY 1994 Appropriations Act Sec. 567): 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)?

**i. Yes**

**j. 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?

**j. Yes**

**k. Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except

**k. Yes**

where applicable procurement rules allow otherwise?

**1. Chemical Weapons (FY 1994 Appropriations Act Sec. 569):** Will the assistance be used to finance the procurement of chemicals that may be used for chemical weapons production?

**1. No**

**21. Construction**

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

**21.a. N/A**

**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?

**b. N/A**

**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?

**c. N/A**

**22. 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?

**22. N/A**

**23. 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?

**23. Yes**

**24. 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?

**24.a. 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?

**b. Yes**

**25. 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?

**25. Yes**

- 26. 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? **26. Yes**
- 27. CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? **27. Yes**
- 28. 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? **28. Yes**
- 29. Export of Nuclear Resources** (FY 1994 Appropriations Act Sec. 506): Will assistance preclude use of financing to finance--except for purposes of nuclear safety--the export of nuclear equipment, fuel, or technology? **29. Yes**
- 30. Publicity or Propaganda** (FY 1994 Appropriations Act Sec. 557): 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? **30. No**
- 31. Marine Insurance** (FY 1994 Appropriations Act Sec. 531): 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 **31. Yes**
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opportunity to bid for marine insurance when such insurance is necessary or appropriate?

**32. Exchange for Prohibited Act (FY 1994 Appropriations Act Sec. 533):** 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?

**32. No**

**33. Commitment of Funds (FAA Sec. 635(h)):** Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement?

**33. No**

**34. Impact on U.S. Jobs (FY 1994 Appropriations Act, Sec. 547):**

a. Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business?

**34.a. No**

b. Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such

**b. No**

assistance is not likely to cause a loss of jobs within the U.S.?

c. Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country, or will assistance be for the informal sector, micro or small-scale enterprise, or smallholder agriculture?

c. No

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

1. **Agricultural Exports (Bumpers Amendment)** (FY 1994 Appropriations Act Sec. 513(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: (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?

B.1. (1) No. Export crops produced by Honduran farmers with assistance from SFED will be competitive with U.S. production of the same or similar crops only when these crops are out of season in the U.S.

(2) No

**2. Tied Aid Credits (FY 1994 Appropriations Act, Title II, under heading "Economic Support Fund"):** Will DA funds be used for tied aid credits?

2. No

**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)?

3. Yes. Prior to the provision of support for the production of any crop, FHIA will be required to assure that this crop is appropriate for production by small, rural, poor Honduran farmers.

**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.

4. SFED activities will be carried out almost entirely by FHIA, an indigenous Honduran research institution. The project will not support civic education or training.

**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. SFED activities are designed to lead to sustainable increases in agricultural production by poor Honduran farmers, and thus to increased incomes for those farmers.

**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

6. (a) SFED will work directly with the rural poor to increase their agricultural production through the use of appropriate technologies. (b) SFED will not encourage private or local government institutions. (c) SFED is consistent with and supportive of Honduras' own development priorities. (d) SFED will seek actively to involve women at all levels of project activities. (e) SFED

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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.

will encourage consultation with like activities in other Central American countries.

**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. Total Honduran contributions will be equivalent to \$1.64 million, or 39.5 percent of the total costs of the program.

**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. The principal beneficiaries of SFED activities will be poor rural farmers.

**9. 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?

9. Yes

*Final*

**10. Disadvantaged**

**Enterprises** (FY 1994 Appropriations Act Sec. 558): 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)?

10. At least ten percent of project funds will be available only for the activities of such institutions.

**11. 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?

11. (a) Yes. Extension activities under SFED will train small farmers to use sustainable production techniques that prevent loss of biodiversity. FHIA will be required to put in place mitigation measures to guard against any loss of biodiversity. (b) No. (c) No. (d) No.

**12. Tropical Forests** (FAA

Sec. 118; FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act):

**a. A.I.D. Regulation**

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

12.a. Yes

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**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 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

b. (1) Yes. See B.11 above

(2) Yes. SFED will create income and employment opportunities, using sustainable production techniques, for poor small farmers who might otherwise use non-sustainable techniques that could degrade soils and threaten Honduras' endangered tropical forests.

(3) SFED will not focus efforts specifically on forest management.

(4) SFED will extend sustainable agricultural techniques as alternatives to slash-and-burn agriculture.

(5) SFED will encourage farmers to produce on existing farm land, and thus (6) conserve forested watersheds.

(7) SFED will not focus activities on timber harvesting, removal or processing.

(8) SFED research will identify alternative techniques to forest degradation.

(9) SFED will not attempt to establish a network of potential tropical forest ecosystems.

(10) SFED will not specifically focus efforts on increasing awareness of the value of tropical forests. It will, however, promote alternatives to their degradation.

(11) SFED will not use the services of other U.S.G. agencies.

(12) All SFED efforts will seek to promote sustainable land use.

(13) FHIA will be required to establish mitigation measures to guard against any negative impacts on biodiversity.

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

c. (1) No

(2) No

(3) No

(4) No

(5) No

(6) No

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?

**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?

d. N/A

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

e. Yes

**13. Energy (FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act):** 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. N/A

**14. 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

14. N/A

exchange will promote: (d) natural resource 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.

**15. Deobligation/Reobligation (FY 1994 Appropriations Act Sec. 510):** 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?

15. N/A

**16. 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.

16.a. N/A

**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?

b. N/A

**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?

c. N/A

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**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?

d. N/A

**17. Development Objectives (FAA Secs. 102(a), 111, 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?

17. See B.6 above

**18. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):**

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**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.

**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.

18.a. All SFED assistance is specifically designed to increase the productivity and income of the rural poor. All research supported by SFED will be focussed on the development and extension of technologies appropriate for use by the rural poor. Extensive field testing will be an important component of this research.

b. N/A. SFED is not specifically intended to improve nutrition, except insofar as that by increasing the production of food crops by the rural poor and thus increasing their income, it will contribute to both increased food availability and increased access to that food.

c. SFED will increase food security by working with domestic small farmers to increase their production of, inter alia, food crops and to decrease post-harvest losses of those crops.

**19. 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.

19. N/A

**20. 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.

20. N/A

**21. 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:

21. N/A

13/29

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;

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

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

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

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

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.

**22. Capital Projects (Jobs Through Export Act of 1992, Secs. 303 and 306(d)): If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level?**

**22. N/A**

USAID/HONDURAS  
MEMORANDUM

**DATE** : August 9, 1994  
**TO** : Jeff Brokaw, LAC/DR/E  
**FROM** : Albert Merkel, Honduras/RD/AED *AM*  
**SUBJECT** : IEE for 522-0399, Small Farmer Export Development Project

Attached find the IEE with a negative determination for the subject project. In developing this IEE, the Mission attempted to identify all environmental concerns, establish an on-going monitoring system to detect environmental impacts, and support this with appropriate training and technical assistance. We considered your office's comments and included discussion of your concerns. Note that this project will not experiment with pesticides. Any pesticides used will have already established uses for the crop set by the USEPA. Any pesticides that do not have these authorizations cannot be used in the project.

Please note that the project must be authorized no later than 1 September 1994 in order to negotiate the grant agreements with the Government of Honduras and FHIA. Should you have any questions, please call me at 011-504-36-93-20, ex. 2680. I appreciate your consideration in this matter.

*BK*

## INITIAL ENVIRONMENTAL EXAMINATION

Project Location : Honduras  
Project Title : Small Farmer Export Development  
Project Number : 522-0399  
Funding : Development Assistance  
Life of Project : \$2,500,000  
Threshold Decision : Negative Determination  
IEE Prepared By : Albert Merkel & Margaret Harritt

### Project Description

a. Goal: To expand the access of the small farmer to the market economy.

b. Purpose: To develop agricultural export crops and mechanisms which are appropriate for smallholder farmer participation which increase small farmers' income. The activity will contribute to rapid economic growth for a broad segment of society through the provision of sustainable, economically and environmentally sound agricultural production technologies.

c. Description: The activity will focus on assisting farmers with small holdings. The small-holder farmer typically owns 2-10 hectares of good, arable land apt for the production of high potential agricultural crops. This farmer normally lacks the technical and market information necessary to undertake production of exportable crops. This activity will focus on assisting the small-holder farmer to produce and market high potential nontraditional crops by identifying windows of opportunity, market niches, and local and international buyers, as well as improving the market information systems available to small farmers and training them in their use.

Small farmers have traditionally faced severe constraints in producing nontraditional crops for local, regional and international markets. They have suffered from a lack of access to information on international standards for quality control, packaging requirements, pesticide residue restrictions, market contacts, produce brokering systems, and sources of credit. To help overcome these constraints, this activity will provide assistance to these farmers in analyzing opportunities for high potential nontraditional crops, and in identifying, understanding, and monitoring regional and world markets.

Because environmental concerns must be paramount in agricultural production, this activity will develop within the private agricultural sector the expertise to detect and alleviate environmental hazards that may be encountered while developing the farming methods needed to meet international production standards. These problems include effects on farm workers as well as on the biodiversity and quality of life. This activity will work directly with research institutions, small farmers, farm communities, exporters, international donors, and the Government of Honduras (GOH) to develop and disseminate information on appropriate, environmentally sound production technologies for the growth and export of high potential nontraditional agricultural crops. It should be noted that all land targeted in this program is already being farmed. No new deforestation will result from this program. Crops produced under these experiments will be disposed of in accordance with USEPA regulations.

This activity will be implemented by a local NGO, the Honduran Agriculture Research Foundation (FHIA). FHIA has developed the required facilities and other resources through USAID assistance under the Agriculture Research Institute project (522-0249). USAID's Rural Development Office has had extensive discussions with the management and Board of Directors of FHIA, and has received their endorsement of this new activity.

d. Anticipated Impact: The stimulation of agricultural export crops will encourage increased investments in rural areas and open credit sources for the rural population. Previous Mission programs supporting high potential export agriculture have led to broad participation by rural people. This activity will build upon these successes. For example, export of melons, a fledgling industry begun in 1984, now employs more than 15,000 people in the Choluteca region, the poorest section of the country. More than 45% of these employees are women, many of whom have become wage-earners for the first time. Many small farmers now grow melons for export, through membership in agricultural cooperatives. Before the introduction of melons for export, most of these farmers had grown cotton - a crop with significant adverse environmental impact and a deteriorating market.

Sweet onions are another example of a high potential export crop that is being grown by smallholder farmers. Given a lack of quality and quantity in the production of sweet onions for local consumption, FHIA began initial variety evaluations and research on this crop in 1988. As a result of FHIA's intervention in this area, local consumers now have access to a new and better product and onion exports have been stimulated. Gross income from local sales and international exports of sweet onions was \$118,000 in 1993, and is expected to rise to \$1,820,000 in 1994. Producers now use drip irrigation systems to conserve water resources, and have learned the proper timing of optimal quantities of pesticide and fertilizer applications to reduce negative environmental impacts. In addition, US exports of agricultural inputs to Honduras

(fertilizers, grading equipment, packaging) have increased.

These smallholder farmers have been willing to make the capital investment and assume the increased risk that production of a new crop entails because onions offer potential income far above that of more traditional crops. At the same time, these farmers now employ more workers, and pay their workers higher than average wages, because they need above average labor quality to insure their produce meets the requirements of regional and international markets. This increased income for the farmers and their workers has improved their access to education for their children, potable water, electricity, medicine and medical services.

Specific indicators to judge progress toward the activity purpose will include: (1) increased investment in high potential agriculture; (2) increased membership in farmer-owned organizations; (3) at least 5 new crops exported profitably from Honduras (asparagus, rambutan, etc.), generating annual export earnings of \$1 million per year; and (4) farm production of these crops will be economically sustainable and environmentally sound.

Outputs expected by the end of this activity include: (1) FHIA will be routinely providing market information on high potential crops to small farmers, researchers, and exporters; (2) adoption of improved, sustainable and environmentally sound production methods for selected products (such as onions, asparagus, melons and ginger); (3) increased access to and understanding of market forces and market information systems by the end of the activity in FY 98; and (4) improved working conditions in the agriculture sector.

#### Environmental Monitoring

The project will not fund production planting and will only provide inputs, such as seed, for controlled research and test plantings not to exceed 4 hectares during any planting season and under direct supervision of qualified researchers. Pesticides will be used only when tolerance levels have been established and where the pesticide has been registered for use on the particular crop by the USEPA.

This does not relieve the project implementors from the responsibility to continually monitor for environmental impacts that could result from this project. To identify as early as possible any negative impacts on the environment, a system of monitoring test plantings for pesticide residues, improper application methods, or other such problems will be an integral part of project activities. All test plantings of crops funded by this project will have this monitoring system built into the work plans of each activity.

In addition, monitoring of privately funded production plantings of crops recommended by this project will be carried out periodically

as an on-going part of the project. This monitoring will include sampling and observation of pesticides, biodiversity, deforestation, and soil erosion described above.

The laboratory testing of samples collected during the environmental monitoring will be processed at the pesticide laboratory in FHIA. This laboratory is one of the most advanced in Central America and is certainly the most advanced in Honduras. FHIA has been in close contact with the USEPA and the USFDA. The USEPA and USFDA visit FHIA periodically to inspect their facilities, and provide training to lab technicians yearly. FHIA and these US organizations are in constant contact to exchange up-to-date information on pesticides, their certification, and testing.

This laboratory has recently added more than \$250,000 worth of new equipment for analyzing pesticide and other chemical residues, and has been providing testing services for government and industry in Central America for more than four years. They recently carried out testing of fresh vegetables in the markets of Honduras under a small grant from USAID. This study was carried out professionally and pointed out a previously unknown public health hazard. The study was so important that the German Government and the Government of Honduras are now contracting FHIA to continue monitoring the problem.

As part of the initial evaluation of potential crops, an environmental review of potential negative impacts of introduction or expansion of these crops into Honduras will be conducted during the new crop identification phase by qualified researchers. This environmental review will, at least, cover potential for inducing increased deforestation or erosion, potential for competition with or displacement of native species, and potential for increased use of pesticides or other chemicals. In addition the review will identify positive results of introduction of these new crops, e.g. decreased deforestation because of increased productivity from existing land, reduced use of pesticides, etc.

This monitoring system will be supported by a training program that teaches farmers and extension workers not only appropriate farm production methods but also some understanding of the reason for observing good environmental techniques when farming and the real cost of unsustainable farming. Included in this training will be intensive instruction on pesticide use and application in accordance with standards and methods established on the pesticide label and USEPA rules. This training is further discussed in the Project Paper.

Funding for the monitoring system and the environmental training will exceed 10% of total project funding.

#### Covenants

The Project Authorization, the Handbook 3 Grant with the GOH, and the Handbook 13 grant to FHIA, will all include two environmentally specific covenants. The first will preclude funding for the procurement use of pesticides except where USAID specifically approves these in writing prior to purchase and use. The second will preclude the use of any pesticide on a crop that does not have USEPA registration and established tolerance levels for that crop. The covenant will also preclude the use of Class I and Class II pesticides.

Recommended Environmental Threshold Decision:

While this project qualifies for a Categorical Exclusion as defined in Handbook 3, Appendix 2D., Paragraph 216.2 (c) (1) (iii) and Handbook 3, Appendix 2D., Paragraph 216.2 (c) (2) (i), (ii), (iii), (v), and (xiv), the Mission has concluded that a negative decision is most appropriate.

The project will not finance production plantings or their inputs such as fertilizer, labor costs, etc. The project will conduct studies for identifying appropriate crops, and provide technical assistance to researchers developing production techniques, formal studies and tests of marketing and transport systems on an initial small scale basis, and develop contacts between producers, researchers, and brokers of produce. The project will not fund actual production field research. It will provide inputs such as technical assistance for development of quality standards to meet international market requirements and training related to these requirements. For experimental plantings, the project may provide small quantities of inputs but these will be restricted to plantings of no more than 4 hectares under direct supervision of qualified researchers.

The project will assist FHIA in developing the techniques required for this work so that it can be continued after the project is completed. The project will also include an environmental monitoring program that will analyze the potential environmental impact of project funded activities and then follow this initial evaluation with periodic field checks to ensure the initial conclusions are correct. Information from this monitoring program will be used by the project to adjust the methods used to analyze new crops for environmental impact.

Threshold Decision:

Because USAID/H has evaluated the environmental concerns associated with the activities envisioned for this project and has taken significant steps to design a monitoring program to detect and mitigate potential environmental harm, USAID feels that the correct Threshold Decision is Negative Determination as defined in Handbook 3, Appendix 2D., Paragraph 216.1 (c) (2) and Paragraph 216.3 (a) (3). It is the determination that the activities of this project will have no Significant Effect on the environment as defined in Handbook 3, Appendix 2D., Paragraph 216.1 (c) (11).

  
\_\_\_\_\_

Marshall Brown  
Director

Clearance:

DMD \_\_\_\_\_   
RD \_\_\_\_\_ DRAFT \_\_\_\_\_  
DF \_\_\_\_\_ DRAFT \_\_\_\_\_  
DP \_\_\_\_\_ DRAFT \_\_\_\_\_

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## ANNEX VII

### FINANCIAL ANALYSIS

The purpose of this financial analysis is to determine whether the activities financed under the Small Farmer Export Development (SFED) Project are likely to prove financially viable during and after the project. The USAID Project Officer worked closely with the FHIA General Director to develop annual projections of sources and uses of funds during the project and one year after. The analysis also takes into account USAID's disbursement schedule, as well as disbursements of GOH counterpart funds. Clearly, these projections are somewhat speculative: they are largely dependent on future funding availability on the part of USAID; on the maintenance of political and economic stability in Honduras; on project success in reaching out and incorporating small farmers; and on continued efficient management on the part of FHIA.

Based on the conditions stated above and on a review of Attachment I to this Annex entitled "Summary Financial Plan", the analysis suggests that the activities financed under the SFED Project are financially viable during and after the life of the project (LOP). Therefore, the project as designed is financially sound both because funds will be provided by project participants<sup>1</sup> in a timely manner, and because the activities envisioned can be implemented as planned providing maximum project impact to the beneficiaries and the host country. Also, the institutional strengthening provided by the project will make project activities self-sustaining after the PACD.

The major assumptions upon which this financial conclusion is based include:

1) According to FHIA, it will generate the following revenues from market research and trade promotion services under the Project:

#### **Projected Income Generated by the ABM 1995-1999 (in US\$)**

Income Source	1995	1996	1997	1998	1999*
Documentation Center					
Market Studies	0	2,000	4,000	10,000	20,000
Price Information	0	600	1,200	3,000	6,000
Trend Analysis	0	400	800	2,000	4,000
Training Activities					
Training Programs	0	1,500	3,000	7,500	15,000
Seminars/Conferences	0	600	1,200	3,000	6,000
Expos/Shows	0	400	800	2,000	4,000
Publications					
Technical Publications	0	800	1,600	4,000	8,000
Other Materials	0	200	400	1,000	2,000
Technical Assistance					
Assistance to Growers	0	1,000	2,000	5,000	10,000
Misc. Income Sources	0	2,083	4,167	10,417	20,833
<b>TOTAL</b>	<b>0</b>	<b>9,583</b>	<b>19,167</b>	<b>47,917</b>	<b>95,833</b>

\* This represents the first year after the PACD in late 1998.

<sup>1</sup> USAID, FHIA, and the GOH

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2) The projected USAID, FHIA, and GOH disbursement schedule (in US\$) is expected to be as follows:

	CY1995	CY1996	CY1997	CY1998	TOTAL
USAID	809,000	587,000	582,000	522,000	\$2,500,000
FHIA	254,250	204,250	204,250	204,250	\$867,000
GOH	109,890	219,780	219,780	219,780	\$769,230
CONTRIBUTIONS	1,173,140	1,011,030	1,006,030	946,030	\$4,136,230

The FHIA contribution schedule to the project includes funds originally derived from market research and trade promotion fees which will go to the FHIA general budget during LOP.

The projected GOH disbursement schedule (shown in US\$ but provided to the project in the Lempira equivalent of up to L7,000,000) will mainly finance small farmer training and planting stock activities of the project.

3) Expenditures under the project are expected to be as follows:

	CY1995	CY1996	CY1997	CY1998	TOTAL
EXPENSES	1,173,140	1,011,030	1,006,030	946,030	\$4,136,230

4) Trade promotion activities will cease after the end of the project and FHIA will maintain market research activities on a fee basis only. The personnel from the ABM Office will be reduced from 11 to 5 and will be transferred to the Technical Services Division of FHIA. This will reduce the overhead cost of operations and allow the functions of the office to be fully integrated into the FHIA organization. The remaining staff will include: the Market Research Coordinator, the Operations Coordinator, two technicians in market research studies, and one secretary.

The projected expenses of the market research activities, after the PACD, are expected to be as follows:

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**EXPENSES OF FHIA MARKET RESEARCH ACTIVITIES AFTER PACD (1999) (in US\$)**

Office Space	2,000
Salaries & Benefits	98,500
Travel & Per Diem	4,500
Fuel, Oil, Maintenance	4,000
Software & Computer Maintenance	2,000
Office Supplies	2,000
Subscriptions	1,000
Association Memberships	2,000
Administrative Support	3,000
Contingency	1,000
<b>TOTAL</b>	<b>120,000</b>

5) During the LOP, fees generated by market research and trade promotion activities will go to the FHIA general budget and support FHIA's in-kind contributions to the project.

After the PACD, trade promotion activities will cease and market research activities will be provided by a five person staff (down from 11) on a fee basis only. The market research staff will have two clients: 1) FHIA itself, especially the Research Department which will need to integrate market information into its research endeavors, and 2) farmers (of all sizes) who will need market information for their business decisions. FHIA researchers expect to be "buying" \$40,000 worth of market research information, which will be handled via internal transfers using FHIA general budget resources. The remaining \$80,000 of the annual \$120,000 cost of the market research activities will be covered from service fees paid by farmers. If these assumptions hold true, the market research office will have a small surplus of \$ 15,883 during 1999, and the activities which remain after the PACD will be self-sufficient.

Attachment I to this Annex entitled "Financial Summary Plan" shows all projections on sources and uses of funds over the four year project and for one year after the PACD by project activity and by activity line item.

SUMMARY FINANCIAL PLAN  
PMA: SPED PROJECT

ATTACHMENT I

SOURCES OF FUNDS	CY96		CY96		CY97		CY98		TOTAL	CY99	
	Year 1	Year 2	Year 2	Year 2	Year 3	Year 4	Year 4	Year 5			
	USAID	PMA/BOH	USAID	PMA/BOH	USAID	PMA/BOH	USAID	PMA/BOH	USAID	PMA/BOH	PMA
<b>USAID</b>	888,800		887,000		888,800		888,800		2,800,000		
-PMA Fees (from market research services)		0		0,000		10,147		47,817		78,887	88,838
-PMA In-Kind Contribution		294,288		194,887		188,888		188,833		768,888	
-BOH LC COUNTERPART 1/		188,888		218,788		218,788		218,778		788,838	
<b>TOTAL SOURCES OF FUNDS</b>	888,800	384,144	887,000	404,888	888,800	404,888	888,800	404,889	2,800,000	1,828,838	88,838
<b>USES OF FUNDS</b>											
<b>For Market Research Activities</b>											
Establishment Costs	68,800	17,800	3,800	0	0	0	0	0	78,800	17,800	
Land & Facilities											
-Research Plots		0,378		0,378		0,378		0,378	0	37,888	
-Office Space		0,378		0,378		0,378		0,378	0	37,888	2,000
-Library		2,888		2,888		2,888		2,888	0	10,888	
-Communications Facilities		1,878		1,878		1,878		1,878	0	7,888	
-Computer Network		888		888		888		888	0	2,888	
-Cold Storage									0	0	
Operating Costs											
-Salaries & Benefits	87,888	18,788	88,800	18,788	88,800	18,788	108,800	18,788	381,888	78,888	88,800
-Consultants									0	0	
-Travel & Per Diem	18,800	3,788	18,800	3,788	18,800	3,788	7,888	3,788	88,800	18,800	4,888
-Fuel, Oil, Maintenance	3,800	1,888	3,800	1,888	4,888	1,888	4,888	1,888	18,800	8,888	4,888
-Insurance & Utilities	4,888		4,888		4,888		4,888		17,800	0	
-Software & Computer Maintenance	2,888	888	2,888	888	2,888	888	2,888	888	10,800	2,888	2,888
-Office Supplies	2,888		2,888		2,888		2,888		10,800	0	2,888
-Other Supplies	1,888		2,888		2,888		2,888		7,888	0	
-Subscriptions	7,888		7,888		8,888		8,888		31,888	0	1,888
-Association Memberships	3,888		3,888		3,888		4,888		13,888	0	2,888
-Administrative Support		10,800		10,800		10,800		10,800	0	40,800	2,888
Training											
-PMA Staff	8,888	1,888	2,888	1,888	2,888	1,888	2,888	1,888	12,888	8,888	
-Producers & Experts	10,800	3,128	10,800	3,128	10,800	3,128	7,888	3,128	37,888	12,888	
Service-Contracts	10,800		10,800		10,800		0		38,888	0	
Service-Internal Transfers	10,800		10,800		12,888		10,800		48,888	10,800	
<b>Sub-total</b>	287,888	68,888	167,888	68,888	178,888	68,888	168,888	68,888	728,888	278,888	118,888
<b>For Trade &amp; Promotion Activities</b>											
Establishment Costs	68,800	17,800	3,800	0	0	0	0	0	78,800	17,800	
Land & Facilities											
-Research Plots		0,378		0,378		0,378		0,378	0	37,888	
-Office Space		0,378		0,378		0,378		0,378	0	37,888	
-Library		2,888		2,888		2,888		2,888	0	10,888	
-Communications Facilities		1,878		1,878		1,878		1,878	0	7,888	
-Computer Network		888		888		888		888	0	2,888	
-Cold Storage		12,800		12,800		12,800		12,800	0	88,888	
Operating Costs											
-Salaries & Benefits	81,888	18,788	88,800	18,788	88,800	18,788	88,800	18,788	388,888	78,888	
-Consultants	204,800		108,800		28,800		28,800		388,800	0	
-Travel & Per Diem	28,800	8,788	28,800	8,788	28,800	8,788	17,800	8,788	128,800	28,800	
-Fuel, Oil, Maintenance	7,800	3,800	7,800	3,800	10,800	3,800	10,800	3,800	38,800	14,800	
-Insurance & Utilities	4,888		4,888		4,888		4,888		17,800	0	
-Software & Computer Maintenance	2,888	888	2,888	888	2,888	888	2,888	888	10,800	2,888	
-Office Supplies	2,888		2,888		2,888		2,888		10,800	0	
-Other Supplies	1,888		2,888		2,888		2,888		7,888	0	
-Subscriptions	7,888		7,888		8,888		8,888		31,888	0	
-Association Memberships	3,888		3,888		3,888		4,888		13,888	0	
-Administrative Support		10,800		10,800		10,800		10,800	0	48,800	
Training											
-PMA Staff	8,888	1,888	2,888	1,888	2,888	1,888	2,888	1,888	12,888	8,888	
-Producers & Experts	10,800	3,128	10,800	3,128	10,800	3,128	7,888	3,128	37,888	12,888	
Service-Contracts	108,800		108,800		108,800		108,800		488,800	0	
Service-Internal Transfers	10,800		10,800		12,888		10,800		48,888	10,800	
<b>Sub-total</b>	828,888	108,800	377,888	88,888	311,888	88,888	288,888	88,888	1,888,888	287,888	0
<b>Project Evaluation</b>					90,000				90,000		
External Audit	7,000		7,000		7,000		7,000		28,000		
USAID Project Assistant	25,000		25,000		25,000		30,000		125,000		
Small Farmer Training 2/		78,888		43,888		43,888		43,888	288,888	288,888	
Planting Stock 2/		31,888		178,884		178,884		178,884	888,344	888,344	
PMA In-kind Costs		68,800		30,800		30,800		30,800	218,000	218,000	
Contingency	10,800	3,788	10,800	3,788	10,800	3,788	3,000	3,788	33,000	18,000	1,000
<b>Sub-total</b>	48,800	178,844	48,800	273,330	88,800	273,330	88,800	273,388	238,000	888,230	0
<b>TOTAL USES OF FUNDS</b>	808,800	384,144	887,000	404,888	888,800	404,888	888,800	404,889	2,800,000	1,828,838	88,838
<b>SURPLUS (DEFICIT)</b>	0	(0)	0	(0)	0	(0)	0	(0)	0	0	(24,147)
<b>PMA INTERNAL TRANSFERS AFTER FACD 3/</b>											40,000
<b>SURPLUS (DEFICIT) AFTER INTERNAL TRANSFERS 3/</b>											15,838
<b>% SELF-SUFFICIENT AFTER FACD</b>											112%

1/ BOH Local Currency Counterpart Contribution to the Project of LY 500,000 (equivalent to \$788,231) to finance small farmer training and planting stock activities. Exchange rate used is \$1.00/CL 8.10.  
 2/ This project activity will be financed with BOH LC Counterpart Contribution Funds.  
 3/ After FACD, PMA's Research Department will "buy" \$40,000 worth of market information. This will be handled as internal transfers and will offset any shortfalls between fees and expenses of market research activities.

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