Honduras Rural Competitiveness Project

Forging greater market access for family farmers

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Challenges facing smallholders

– Low Productivity (“Yield Gap”)
  • the urgency of innovation: product, process and organization
– Poor Logistics (Rural Infrastructure)
  • Including production planning
– Low Competitiveness
– Limited Market Access
– **Information** (“Market Intelligence”)
  • Through a partnership approach, smallholders can access both technology and finance to address these challenges.
Responding to these challenges

• **Innovation:**
  – Rural producers must adopt new technologies and access greater commercial intelligence in order to compete in dynamic markets - a “rural innovation culture”.

• **“Climate-smart” interventions:**
  – jointly raise agricultural productivity, increase water efficiency, promote climate change resilience and reduce carbon emissions.

• **Collective Action:**
  – Small-scale producers, working together under a shared objective, can reduce asymmetric bargaining power in markets traditionally dominated by intermediaries.

• **Value chains:**
  – Rural producer-based organizations that participate in value chains can:
    (i) improve uptake of innovations through a scaled approach to technical assistance;
    (ii) expand access to timely commercial intelligence through interaction with downstream actors (e.g., processors, institutional buyers, freight-forwarders); and
    (iii) reduce individual risks through risk spreading across value chain actors.
Ag Value Chain Initiatives: Honduras

**Horizontes del Norte**: IFAD, CABEI  
http://www.ifad.org/operations/pipeline/pl/hn_s.htm

**Promecom**: IFAD, CABEI  
http://operations.ifad.org/en/web/ifad/operations/country/project/tags/honduras/1407/project_overview

**Competitividad Rural**: World Bank, COSUDE, FAO
**Acceso**: USAID  
**PACTA**: GOH  
**PROLENCA**: IFAD

**Emprende Sur**: IFAD, CABEI  
http://emprendesur.org/

**Pronegocios Rurales**: IDB  
http://www.pronaders.hn/pronegocios/
Agriculture and Financial Access in Honduras

**Honduras and Agriculture:**

*Pros:*
- primary engine for rural incomes
- 38 percent of employment
- 60 percent of rural employment
- contributes 14 percent to GDP
- 70 percent of total exports.

*Cons:*
- hampered by poor roads
- limited investment for irrigation seeds, tools, technology
- antiquated practices
- adherence to low-value crops.
- 5 percent of Total Banking Portfolio
Project Development Objective:
Contribute to increased **productivity** and **competitiveness** among organized rural small-scale producers through their participation in productive partnerships.
Project Components and Key Players

1. Support to Productive Alliances
2. Finance for Productive Investments
3. Project Coordination, Monitoring and Evaluation

- Rural Producer Organizations
- Service Providers for Business Development
- Financial Sector Partner + Guarantee Fund
- Commercial Partner
Financing Approach

1. Equity Capital from OPRs

2. Loans (Liabilities) for Asset Formation

3. Matching Grant

10% OPR

30% Financial Sector Partnership

60% ComRural
Building Productive Partnerships:

**Investment Cycle:**
- RPOs and their Commercial Partners present Business Proposals for initial screening.
- RPOs, with Commercial and Technical Partners, develop Business Proposals into Business Plans;
- RPOs submit the Business Plan to potential Financial Partners for feasibility and are approved for finance of their portion of the Business Plan (a minimum of 30 percent);
- RPOs submit the Business Plan for complementary COMRURAL matching grant (maximum 60%);
- COMRURAL reviews the Business Plan for compliance with environmental, financial, institutional, social and technical guidelines per the Project Operational Manual;
- Resources are transferred to the RPO for Business Plan execution;
- RPOs contract goods, works and services
Strategic Partnerships

- 20 Private Technical Partners
- 15 Private Financial Partners
- 30 Commercial Partners
- 85 RPOs
## Results: Business Development


<table>
<thead>
<tr>
<th>Value Chain</th>
<th>Proposals Presented</th>
<th>Proposals Approved</th>
<th>% Total Approved</th>
<th>Families</th>
<th>% approved value chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vegetables</td>
<td>39</td>
<td>28</td>
<td>24%</td>
<td>2,407</td>
<td>72</td>
</tr>
<tr>
<td>Coffee (Niche markets)</td>
<td>64</td>
<td>51</td>
<td>43%</td>
<td>3,466</td>
<td>80</td>
</tr>
<tr>
<td>Honey</td>
<td>8</td>
<td>7</td>
<td>6%</td>
<td>230</td>
<td>88</td>
</tr>
<tr>
<td>Rural Tourism</td>
<td>8</td>
<td>7</td>
<td>6%</td>
<td>300</td>
<td>88</td>
</tr>
<tr>
<td>Fruit</td>
<td>9</td>
<td>9</td>
<td>8%</td>
<td>322</td>
<td>100</td>
</tr>
<tr>
<td>Aquaculture</td>
<td>3</td>
<td>1</td>
<td>1%</td>
<td>17</td>
<td>33</td>
</tr>
<tr>
<td>Basic Grains</td>
<td>8</td>
<td>6</td>
<td>5%</td>
<td>664</td>
<td>75</td>
</tr>
<tr>
<td>Livestock</td>
<td>11</td>
<td>8</td>
<td>7%</td>
<td>295</td>
<td>73</td>
</tr>
<tr>
<td>Others</td>
<td>3</td>
<td>2</td>
<td>2%</td>
<td>132</td>
<td>100</td>
</tr>
<tr>
<td>TOTAL</td>
<td>153</td>
<td>119</td>
<td>100%</td>
<td>7,833</td>
<td>78</td>
</tr>
</tbody>
</table>
## Results: Value Chain Investment

<table>
<thead>
<tr>
<th>Year</th>
<th>Business Plans</th>
<th>Families</th>
<th>Financing Package (USD)</th>
<th>OPRs (Equity)</th>
<th>Financial Partner (Liability)</th>
<th>Matching Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>8</td>
<td>392</td>
<td></td>
<td>227,937</td>
<td>666,881</td>
<td>1,031,293</td>
</tr>
<tr>
<td>2012</td>
<td>27</td>
<td>2,318</td>
<td></td>
<td>1,685,696</td>
<td>3,468,681</td>
<td>5,295,430</td>
</tr>
<tr>
<td>2013</td>
<td>50</td>
<td>3,885</td>
<td></td>
<td>2,224,754</td>
<td>5,238,761</td>
<td>8,418,581</td>
</tr>
<tr>
<td>Total</td>
<td>85</td>
<td>6,595</td>
<td></td>
<td>4,138,387</td>
<td>9,374,323</td>
<td>14,745,304</td>
</tr>
</tbody>
</table>

**15%**  **33%**  **52%**
Key Factors for Partnership Success

RPO with a clear and verified market opportunity

- Commercial Partner identified at start of the process
- Private Technical Assistance
- Financial Partner – proxy for business viability
- Shared risk and shared reward

Business terms:

- Volume
- Presentation
- Quality
- Price
- Frequency
- Logistics: Delivery
- Form of payment

Strategic Investments to “meet the market”.
Social and Environmental Safeguards

Enabling participation of women, youth and indigenous populations

Environmentally friendly crop management practices
Monitoring and Evaluation

Experimental design
- “with/without” & “before/after”

Baseline complete (2013)
- Niche coffee, fruits, vegetables
- Sample – 700 producers across three cohorts

Next measurement in 2015
## Results Indicators

<table>
<thead>
<tr>
<th>Results Indicator</th>
<th>Measurement November 2013</th>
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<tbody>
<tr>
<td>175 RPOs with approved Business Profiles.</td>
<td>119 RPOs with approved Business Profiles (68% de la meta).</td>
</tr>
<tr>
<td>At least 120 Business Plans implemented. (Estimated average cost: US$250,000)</td>
<td>85 Business Plans implemented. (Actual average cost: US$345,000)</td>
</tr>
<tr>
<td>85% of RPOs rate as satisfactory the technical assistance from Technical Service Providers.</td>
<td>96% satisfaction (1st measurement – 2012)</td>
</tr>
<tr>
<td>Private finance for Business Plans represents at least 50% of the public financing. (10%-30%-60%)</td>
<td>Private finance - 48%; public finance - 52%</td>
</tr>
<tr>
<td>At least 5,280 producers benefited under approved Business Plans (US$5,800/producer)</td>
<td>6,595 producers benefited (125% of target) (US$4,375/producer)</td>
</tr>
<tr>
<td>10% increase in gross sales for participating RPOs.</td>
<td>Measured at quarterly intervals.</td>
</tr>
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Lessons learned ... or not ...

- Producer organization (supply) and a viable Business Plan (demand) => necessary condition for competitiveness
- Targeted Technical Assistance – essential for successful partnership
- It’s business, not charity.
- “White Elephants” are not an endangered species...yet.
- Financial access and intermediation => sufficient condition for partnership sustainability – unlock it!
Looking ahead …

• Institutionalize the Productive Partnership model:
  – New public policy
  – Mainstream in other projects

• Develop tools for strengthening the model:
  – Development of a Guarantee Fund to support access to finance for small and medium enterprises

• Assessment of use of ICT (for competitiveness)
• Profiling and rating of producer organizations on financial sustainability
Thank you!

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