

RURAL ENTREPRENEURSHIP DEVELOPMENT PROGRAM

(TC-95-06-23-1)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Pan American Agricultural School (commonly known as the Zamorano School)

OBJECTIVES: The goal of this project is to help small and medium-sized agricultural and agroindustrial producers in the Honduran rural sector become successful and environmentally responsible entrepreneurs. The program's purpose is to test a pilot system of services to facilitate that process.

BENEFICIARIES: The project will benefit a total of 1,960 participants represented by: (a) 40 groups made up of 1,480 small and medium-sized agricultural producers and agroindustrial entrepreneurs; (b) 300 young entrepreneurs; and (c) 180 officials from 30 training and technical assistance providers and producer associations, each of them responsible for training at least five agricultural and agro-industrial producers, with a multiplier effect that will reach another 900 indirect beneficiaries.

DESCRIPTION: The Pan American Agricultural School is notable for the quality of the human resources training it provides. Its traditional strengths include academic excellence and hands-on training ("learning by doing"), character and leadership building, and promoting a "culture of success" by strengthening its clients' business skills. This project is designed to support the School in its efforts to serve the rural population of Honduras and give a major thrust to entrepreneurial development in the rural sector.

The methodology to be used in this project will take a participatory, inductive approach, focusing on management and marketing, from a comprehensive and interdisciplinary perspective, to meet the needs of rural producers and entrepreneurs. It reflects a philosophy of learning by doing in the classroom, field and processing plant, to reinforce the understanding of theoretical concepts and encourage self-confident business decision-making. It gives support to rural women by offering them the opportunity to take responsibility for business

management as active participants at all stages of the agribusiness cycle.

The program will offer a comprehensive business management and technical services package comprising three components: (1) technical assistance and business support services for organized groups; (2) trainer training and business support for young entrepreneurs; and (3) monitoring, evaluation and follow-up systems.

1. **Technical assistance and business support services for organized groups.** This consists of a package of integrated training and technical assistance services in the areas of business management, administration, group dynamics, production techniques, product commercialization, marketing, conservation of natural resources, and environmental protection. It will identify and ensure access to the necessary sources of information through the application of information technology to business management by the agricultural producers and the various organized groups.
2. **Trainer training and management support for young entrepreneurs.** In order to achieve multiplier effects, the methodology will be transferred to development organizations engaged in training microentrepreneurs and small producers; to producer organizations; and to young entrepreneurs selected for their leadership potential as agents of change to replicate the Zamorano methodology in their own communities.
3. **Monitoring, evaluation and follow-up systems.** An evaluation system of proven effectiveness in measuring the impact of programs will be applied. The project offers this opportunity to develop, apply on a large scale, and validate the Zamorano methodology and rigorously evaluate its efficiency. This will allow its evaluation, adjustment and dissemination in the context of sustainable rural development, at the country and Central American levels.

FINANCING:	MIF Facility II:	US\$1,892,300
	Local contribution:	<u>US\$ 795,200</u>
	Total:	US\$2,687,500

**FINANCIAL
TERMS AND
CONDITIONS:**

Execution period: 3 years
Disbursement period: 3 years 6 months

BENEFITS:

The project is designed to raise productivity and incomes, reduce production costs, and promote financial self-sustainability. The project's activities will make it possible to: (a) improve the incomes of 40 groups of agricultural and agroindustrial producers; (b) generate leadership opportunities for 300 young entrepreneurs; (c) transfer the Zamorano methodology to 30 public and private development agencies in order to ensure the program's multiplier effect; (d) strengthen the business orientation of second-tier producer organizations; and (e) strengthen the recipient groups by providing them with information services.

The achievement of these goals will be measured by a rigorous evaluation of the effectiveness of the Zamorano methodology and the feasibility of replicating it in other settings.

RISKS:

The program calls for the gradual introduction of the concept of payment for services delivered to agricultural producers and agroindustrial entrepreneurs. This practice is not common in Honduras, where subsidies and paternalism have been the rule. The aim is show the participants, through the demonstration effect of actual improvements in their productivity and incomes, the benefits to be derived from their own entrepreneurial development. They will thus be motivated to hone their skills on an ongoing basis and thereby earn enough to make the program sustainable. Groups completing the entire three-year program are expected to be financially self-sustaining by the end of the process. The project is structured on the assumption that the recipient groups will bear the costs of technical assistance from the fourth year forward.

An additional consideration is that agricultural development which is not based on conservationist practices brings a number of risks in its wake. The School's marked concern for the environment will be reflected in the scheduling of six hours of instruction per week per course on natural resources conservation and environmental protection, rational use of agrochemicals, erosion control, reforestation, and related topics.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

To initiate disbursements for the program the executing agency will have to submit, to the Bank's satisfaction:

- a. A short list of the leaders and coordinators who will work in the units executing each component;
- b. Contracts signed with the coordinators for the first year of operations;
- c. A business plan including a schedule of activities, financial plan, staffing with statement of duties, marketing strategy, budget, cost of services, performance indicators for participants, and expected results;
- d. A mechanism to phase in charges for training, technical assistance, and information services designed to have project users gradually pay for those services themselves;
- e. Eligibility criteria for the selection of groups, trainers, and young entrepreneurs;
- f. Approval by the School management of the obligation to provide local counterpart funds for the project.

**THE BANK'S
COUNTRY STRATEGY:**

The project is consistent with the Bank's strategy for Honduras, which focuses on developing human capital, making private investment more productive, deregulating markets and improving efficiency within the State, by providing support for a shift in agriculture to make it competitive and responsive to demand (agricultural sector adjustment program, loan 737/OC-HO). The present operation is predicated on participation by the population and on generating training and technical assistance services to raise productivity in the countryside and thus ensure sustainable income levels and improved quality of life.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environment Committee, at its meeting of August 15, 1995, classified this as a Category III operation.

I. COUNTRY ELIGIBILITY

- 1.1 The Donors Committee declared the Republic of Honduras eligible for all funding modalities under the Multilateral Investment Fund in December 1993.

II. PROGRAM CONTEXT

A. General framework

- 2.1 Agriculture is the largest sector of the Honduran economy. It produces 25% of GDP, accounts for 72% of exports, and employs 52% of the work force. Fifty percent of the nation's income comes from traditional agricultural products (bananas and coffee), and in recent years diversification has led to nontraditional exports such as shrimp, lobster, pineapples, melons, citrus fruits, and vegetables.
- 2.2 Per capita GDP is one of the lowest in Latin America (US\$593 in 1994). The minimum wage is under US\$50 a month. Fifty-three percent of the population is rural, 84% of whom are poor and 66% indigent. Illiteracy in the countryside stands at 42%, and about 60% of the economically active population have attended school for less than three years. The low level of training of human capital is at the root of the low productivity of the labor force and the shortage of skilled manpower, and stands in the way of creating jobs that require special skills, keeping wages low.
- 2.3 The 1980s were a time of macroeconomic policies and trade controls which adversely affected the agricultural sector and agroindustrial development, thereby discouraging investment and exports. The imbalances that slowed growth in the sector's ability to supply the country with food were due to an overvalued lempira; the use of support prices and direct intervention in the commercialization of basic grains; and subsidized for interest rates, seed distribution, and the provision of machinery services and artificial insemination.
- 2.4 In order to remove those obstacles to agricultural development, and as part of the structural adjustment program initiated in 1990, the Government of Honduras devised a program to correct the macroeconomic imbalances and increase private sector participation in the economy. The program set out to: (a) eliminate the difference in tariffs between farm and nonfarm products; (b) eliminate price controls on farm products; (c) rationalize the tariff system and eliminate the system of minimum support prices and quantitative restrictions on basic grains; (d) eliminate public sector interference in the commercialization of basic grains; and

(f) introduce food security programs to mitigate the impact of adjustment on farm prices.

- 2.5 In 1992 the government signed a new program with the World Bank and the IDB to expand the reform process and lay the groundwork for a modern agricultural sector, by: (a) furthering the sustainable use of forest resources; (b) improving the efficiency of financial intermediation for agricultural credit and trimming the fiscal deficit caused by subsidies to economic interests; and (c) improving program and budget planning by sector's public institutions.
- 2.6 Despite these measures, macroeconomic imbalances reasserted themselves in 1993. The government responded by initiating: (a) far-reaching reforms of the State through the public sector reform program (HO-0101), now in preparation by the World Bank and the IDB, which includes the rationalization of the Ministry of Natural Resources and a review of its programs; and (b) PROAGRO, the 1995-1998 agricultural plan for rural development. The latter lays out specific measures in the agroindustrial area aimed at laying the groundwork for agricultural development, facilitating the conversion of production systems, and encouraging agricultural producers to adopt an economic logic and ecological behavior that is conducive to reversing the degradation of resources.
- 2.7 To keep up the momentum brought by the macroeconomic programs and sector reforms, it will be necessary to address microeconomic problems and foster productive and organizational innovation in business. Hence the importance of involving society and the business sector, as the major players in production within the economy.
- 2.8 Although liberalization policies present opportunities for economic growth, they also confront small producers and entrepreneurs with the challenge of converting and modernizing their operations in order to fit more efficiently and competitively into a social market economy. Training people in the rural sector is important to achieve such competitiveness.

B. Conditions in the business, agroindustrial and small farming sectors

- 2.9 **Microenterprise.** Honduran microenterprise has its roots in the economically most depressed segments of the population in the two main centers of industrial development: Tegucigalpa and San Pedro Sula. Such businesses, which employ up to five persons, have assets of less than US\$1,250 and little in the way of technology. They have been in operation for an average of three years. Approximately 170,000 microenterprises with 370,000 employees are in existence, all in the informal sector. They contribute 22% of industrial value added.

- 2.10 **Small business.** There are about 3,150 small businesses, 60% of them in the informal sector. They have five to 15 employees and assets of less than US\$10,000. Their position is generally not solid because of inadequate business leadership, the still fledgling organization of business groups, a dearth of skilled managers, poor quality control, unsophisticated marketing, inefficient distribution, scanty information on markets, poor knowledge of the competition, and, generally, a lack of entrepreneurial culture and competitive strategy.
- 2.11 **Agroindustry.** According to studies done by the Zamorano Agricultural School, small and medium-sized agroindustry is subject to a series of constraints on its development: unskilled human resources, limited technological development, poor access to technical assistance and training, seasonal availability of raw materials without quality standards and with fluctuating prices, scant information about markets, inability to analyze and discover new opportunities, lack of credit, high commercialization costs, inadequate distribution channels, high transport costs, inadequate infrastructure, and difficulty in adjusting to macroeconomic shifts.
- 2.12 **Agricultural producers.** Among the several types of producers in the agricultural sector one finds:
- a. Small producers, who direct their efforts and limited resources to subsistence agriculture, use low technology, and have little access to technical assistance and training. They lack access to credit and experience legal problems with respect to land tenure. Their production margins are minimal and they market their products through middlemen.
 - b. Medium-sized producers use low- and medium-intensity technologies and have limited access to credit, technical assistance, and training. They sell their products to the domestic market and sometimes abroad, through middlemen and processors, mainly for coffee.
- C. The technical assistance services market
- 2.13 The rationalization of the state apparatus will leave less for the public sector to do by way of generating and transferring technology, as functions better performed by other agents are taken away from the State. However, technological services for agricultural and agroindustrial producers currently offered by private sources are haphazard, poorly integrated, mismatched to existing needs, and not conducive to change.
- 2.14 Although private institutions have technologies for a great majority of crops and animal species, their programs have been deficient because a nationally coordinated agricultural research

and technology transfer system has been absent. To overcome this constraint the government, working with the World Bank and the IDB, is preparing a project through the Agricultural Science and Technology Office (DICTA).

- 2.15 The Pan American Agricultural School (EAP) occupies an important place in this institutional framework, thanks to its tradition of excellence and leadership in the generation of technology in the field of agricultural education based on a philosophy of learning by doing. Since 1990 the School has directed pilot projects to develop experience through training and technical assistance for organized groups in the industrialization and commercialization of *jocote* and *paste*. These projects have demonstrated the technical, economic and financial viability of rural microenterprises that industrialize and market products with value added, and have contributed to the organization of agroindustrial cooperatives, for the most part made up of women. These groups have begun to sell their products in Honduran markets and in other countries of the region, with Zamorano's support in monitoring and in seeking other export markets.
- 2.16 The demand for training and technical assistance for agricultural and agroindustrial producers was identified by the School through studies on the outlook for agroindustry in producers' organizations, and through surveys of organized rural groups. The results reflected the needs for technical assistance and training in agroindustrial technology; new cropping, pricing and market research techniques; administration and management; and institutional strengthening to improve their negotiating and commercialization skills. The school also stressed the importance of including women in production processes and the usefulness of organizing.
- 2.17 The rural entrepreneurial development program is to be viewed in this context. Its purpose is to help small and medium-sized agricultural and agroindustrial producers become successful entrepreneurs through the application of a methodology of integrated training and technical assistance services backed by an efficient information system.

D. Work with organized groups

- 2.18 Economic efficiency criteria tend to focus the project on organized groups within the rural sector. Groups already in existence are in a better position to absorb transaction costs and negotiate, and can provide vertical integration between rural producers and agroindustry to boost value added. Focusing on them also makes it possible to enter into production contracts with cooperatives to encourage producers to adopt production, storage, packaging and commercialization techniques consistent with market requirements.

- 2.19 Using this pilot project to work with associations of small rural businesses will make it easier to analyze their problems and develop options as regards funding and technical assistance. It will also make it possible to discover market niches at different levels, establish commercialization networks, and negotiate production and processing agreements.

E. The Pan American Agricultural School (Zamorano)

- 2.20 The Pan American Agricultural School, a university-level institution functioning within a commercial property, was created in 1942 by leading national and international figures from the private sector to further the agricultural and rural development of Latin America through education and research. The school is private, independent, autonomous, and financially sound. The School's mission is to train leaders in sustainable agriculture, agribusiness, natural resource management, and rural development. The Zamorano methodology bases its approach on the principles of Pan Americanism, learning by doing, academic excellence, character-building, and leadership training. The students learn by doing from instructors who teach by doing, in a climate of strict discipline and hard work.
- 2.21 This combination of principles and effort results in a good output of foodstuffs, which sustains the School's population of approximately 1,000. Surplus production is sold to help fund the School. The faculty consists of 100 professionals for the academic programs in agronomy and agricultural engineering.
- 2.22 As part of its outreach program, the School offers courses in agricultural subjects to professionals, technicians, small farmers, and the general public. Outreach activities have grown substantially in the last decade, with 35,000 Hondurans and participants from other countries having received training.
- 2.23 Since 1991 the School has provided training and technical assistance as forms of outreach, especially to the following groups: (a) small producers, who learn to apply technology to cropping, stock raising, and reforestation; (b) groups of small farmers, who are trained in technical and administrative fields and in marketing farm products; (c) microentrepreneurs and small agroindustrialists, who are taught to form agroindustrial enterprises, perform commercial feasibility studies, and apply marketing techniques; (d) basic agricultural training schools, which receive support in developing truck gardens and raising livestock; and (e) trainers from development agencies, who are instructed in rural agroindustrial organization and administration, real estate administration, and farm product marketing.

F. Project rationale

- 2.24 Although small and medium-sized agricultural producers have been receiving technical assistance for four decades, through rural development programs and extension in production areas, not enough attention has been given to management, administration, marketing, commercialization, conservation and rational use of natural resources, and environmental matters.
- 2.25 The agroindustrial sector is in its infancy and faces a number of difficulties. Evaluations of the sector indicate the failure of efforts to develop it because of poor inter-agency coordination and the lack of a comprehensive, systematic, interdisciplinary and proven methodology to transfer technology to agricultural producers and agroindustrial entrepreneurs.
- 2.26 Current trade liberalization policies will create opportunities and challenges for business development. In addition, as the public sector redefines its role to serve the population, producers and entrepreneurs will have to join efforts and integrate with each other in order to position themselves in competitive national and international markets. In this context, producers and entrepreneurs will need to develop competitive skills in order to face efficiently the challenges posed by a modern world.
- 2.27 The institution that stands out for the quality of its training and technical assistance in the development of competitive skills is the Pan American Agricultural School. Its traditional strengths include academic excellence, learning by doing, character and leadership building, and promoting a "culture of success" by strengthening its clients' business skills. The success and impact of its programs have always been the best evidence of the Zamorano system's effectiveness. The school's mission is under constant review, as is reflected in the Strategic Plan for 1995-1999. This planning process has spurred innovation throughout the institution in an effort to improve the quality of education. This project is designed to support the School in its efforts to reach out to the rural sector and make a large-scale contribution to entrepreneurial development in rural areas (see Annex II-1).

III. THE PROJECT

- 3.1 The project consists of a series of sequential and complementary events - courses, workshops and technical assistance - directed to selected and organized groups of agricultural and agroindustrial producers, over an operational horizon of three years (see Annex III-1).

3.2 The methodology is based on the experience gained by the School over a period of five years through its Agribusiness Development Center (CDA), with a comprehensive and interdisciplinary approach stressing management, participation, and commercialization to meet customer needs. This methodology, practically applied in the field, will reflect the Zamorano philosophy of learning by doing in classroom, field and processing plant, so as to enhance the understanding of theoretical and practical concepts and encourage the development of self-confident business decision-making. The project gives support to rural women as active participants at all stages of the agribusiness cycle.

3.3 The purpose of the training and technical assistance will be to: (a) train small agribusinesses; (b) organize producers and entrepreneurs; (c) deliver technology packages on farm production and post-harvest management; (d) develop demonstration plots on farms; (e) process farm products industrially with appropriate technology; (f) commercialize products through local and regional markets, or for export; and (g) provide entrepreneurial guidance to second-tier producer organizations.

A. Objectives

3.4 The goal of this project is to help small and medium-sized agricultural and agroindustrial producers ^{1/} in the Honduran rural sector become successful and environmentally responsible entrepreneurs. The project is predicated on sustainable agriculture and sound natural resource management (see Annex III-1).

3.5 The purpose of the program is to test, validate and expand the scope of application of a pilot system of training and technical assistance services, and to transfer a methodology to facilitate that transformation. A further aim is to enable the project's clients to respond to changing demand in dynamic markets by manufacturing high-quality products in a profitable and ecologically sustainable fashion.

B. Project description

3.6 The project will offer a comprehensive and integrated package of technical and business management services (see Annex III-2) based on a participatory approach and comprising three components: (1) technical assistance and business support services for organized groups; (2) trainer training and business support for

^{1/} Throughout the document, project clients such as cooperatives, associations, or confederations of small and medium-sized agricultural producers and microentrepreneurs or small agroindustrial entrepreneurs, will be referred to as "organized groups" (OGs).

young entrepreneurs; and (3) monitoring, evaluation and follow-up systems.

1. Component I: Technical assistance and business support services for organized groups

- 3.7 Entrepreneurial skills and expertise will be transferred to agricultural and agroindustrial producers in accordance with the Zamorano methodology by providing a package of integrated training and technical assistance services (see Annex III-3) in the areas of technical administration, production techniques, marketing, product commercialization, conservation of natural resources, and environmental protection. Information systems for project support and feedback will be included.
- 3.8 Delivery of the services package: The Zamorano methodology will be applied to 40 groups as a package of integrated services. This component will be carried out according to the following schedule and sequence: (1) The complete package of courses, technical assistance, and workshops will be offered during the first year of program execution. (2) The only offerings in the second year will be technical assistance, given on a weekly basis to each group, and workshops in problem-solving. (3) The third and last year will be devoted to following up on and monitoring activities by means of monthly visits (see Annex III-4).
- 3.9 Training. Courses and teaching materials will be designed based on an analysis of needs. Each course will run for five days and will take place in School facilities, with 10 leaders of each organized group participating; these events will be evaluated on an ongoing basis. All the courses will entail: (a) coverage of topics identified during the analysis of needs; (b) development of a commitment, via contracts between Zamorano and its clients, to transfer the know-how acquired to the other members of the group; (c) a minimum of six hours (per event) devoted to matters concerning the conservation and rational use of natural resources.
- 3.10 Technical assistance. Advisory assistance will be offered to the groups in technical and administrative areas and in product industrialization projects designed to add value through processing and set up efficient commercialization systems. Increasing value added is intended to help improve incomes and living standards in rural households. In accordance with the items of production identified, market surveys will be conducted and the technical, legal, organizational, economic and financial feasibility of investments for prototypes of industrial products and preproduction and demonstration lots will be analyzed. After six months, and during the second year of the program, a two-day problem-solving workshop will be held with each group to resolve specific administrative and technical problems jointly identified by the groups and the experts.

3.11 Information systems: In order to improve production and commercialization activities, information needs will be identified and information technology readied during the pretraining phase. It is expected that the increased range of information thus made available to producers and businesses will make for higher-quality investments in all areas of the agribusiness system: inputs, production, processing, storage, transport, marketing and distribution. The activities will be:

- a. Assessment of information supply and demand. Evaluations will be made of access, availability and use of sources of information on markets, credits and feasibility with respect to new crops or products, such as the Commodity Price Database maintained by the Honduran Foundation for Agricultural Research (FHIA), AGRINET, and others.
- b. System design and implementation. The technological infrastructure and mechanisms for providing access to, and distribution of, the relevant information will be designed. Equipment will be selected, and programs and networks installed, and training in information management will be offered.
- c. Establishment of community information centers. These centers will be self-sustaining by the end of the program, through the establishment of a scale of payments for services, and self-replicable through the creation of interconnected networks managed by the community groups.

2. Component II: Trainer training and management support for young entrepreneurs

3.12 The aim of this component is to ensure the multiplier effect of the Zamorano methodology through the training of trainers and of the young entrepreneurs trained by the project.

a. Trainer training

3.13 The Zamorano methodology will be transferred to 30 development agencies and second-tier public and private producer associations (with at least four participants per entity in order to create a critical mass) working with producers and businesses in the areas of rural development, marketing and commercialization of agricultural and agroindustrial products. The design, execution and monitoring of training will reflect those of the program described under Component I, which will also be recognized in the commitment of the parties to a follow-up plan and the instruction in natural resource conservation and environmental protection (12 hours).

- 3.14 Follow-up. A six-day (non-consecutive) technical assistance plan will be designed with each participating agency to ensure the successful transfer of the Zamorano methodology.

b. Management support to young entrepreneurs

- 3.15 Three hundred young entrepreneurs with leadership potential will be trained as agents of change capable of handling the challenges facing their communities in the areas of agriculture, natural resources and development. These young people will range in age from 14 to 21, and they will be required to have completed their basic schooling and show a commitment toward their communities.
- 3.16 The courses will run for two weeks, non-consecutively. Courses on analysis and community development will be offered based on an analysis of needs. The participants will sign a contract with the School undertaking to apply the integrated services package by developing innovative projects (at least one project in the year following their training) in their home communities or in an area of special interest to them. The School will follow up on the participants' accomplishments and encourage them to involve themselves in project activities in their communities.

3. Component III: Monitoring, evaluation and follow-up systems

- 3.17 To ensure that the training and technical assistance activities and the project's achievements are widely recognized and accepted, project evaluation must be rigorous, objective and impartial. The opportunity offered by the project to develop, apply on a large scale, and validate the Zamorano methodology will allow its dissemination in connection with sustainable rural development nationally and throughout Central America.
- 3.18 The classical experimental methodology will be used in evaluating components I and II. The procedure (see Annex III-5) encompasses: (a) selection of groups of potential participants from the target population; (b) random assignment of participants to a treatment group and a control group; (c) furnishing of all program services only to the treatment group; (d) interviews with both groups at established intervals and measurement of such indicators as earnings, educational achievement, and other measures of quality of life; and (e) measurement of the effects of the program by comparing the results for both groups. A detailed analysis of processes and service delivery will be relied on to evaluate the NGOs.
- 3.19 Monitoring and information activities. Monitoring will provide information for managerial use with which the executing agency can ensure efficient management and conduct quality control with respect to the project by measuring the progress of the participants. A data base will be prepared on the basis of profiles of the participants (income, activity, education), their

access to services, their assessment of the quality of those services, and suggestions for improvements. A statistical system will be introduced to analyze the results and evaluate the project's impact. This ongoing monitoring system will supply immediate feedback and allow adjustments to the methodology if necessary.

- 3.20 Reports. Two evaluation reports will be prepared: (a) The first, covering the medium term, will report on early indicators of project effectiveness in the first year of operations. Should problems surface, corrective action will be recommended. (b) The final report will assess the project's impact and the achievement of previously identified goals, such as: number of successful new businesses and participants in those businesses; profitability of the businesses and number of new products made by already existing businesses; and number of businesses having adopted environment-friendly technologies. The results will be analyzed by type. The report will offer recommendations concerning the potential for replicating the Zamorano method elsewhere in the region.

C. Executing agency

- 3.21 The Pan American Agricultural School (Zamorano) will be responsible for general coordination, administration, execution and supervision of the program, through the Technical Committee.
- 3.22 The technical committee will be set up to supervise the program and provide it with advisory assistance. It will be chaired by the Dean for Outreach and its members will include the heads of the Rural Development and Economics departments and the heads of other departments of the School; at least one representative of the beneficiaries; a representative of the private sector; and a representative of the Bank. This committee will meet once a month for the duration of the project.
- 3.23 The executing unit. The Technical Committee will appoint the project leader and the project co-leader, who will function as such on a part-time basis, and a team made up of a financial and accounting administrator, assigned to the Financial Manager's Office; an administrative assistant; and a secretary. Three coordinators will be hired, one for components I and II, another for the information systems, and a third for component III. All three will be full-time positions. Local consultants will be hired to work on components I and II, backed up by consultants within the School. The Evaluation Component will be implemented with the support of an international consulting firm or specialized agency. In addition to reinforcing the evaluation's credibility, this firm or agency will use advanced technology to measure the project's impact and bolster the local capacity for rigorously carrying out impact assessments in the future. During the first three months following the start of the project, the executing unit, aided by

consultants, will select participants in accordance with the eligibility criteria (see Annex III-6).

- 3.24 **Trainers and technical assistants.** As noted, the local consultants will be supported by teaching staff, or consultants within the School, in designing and executing courses, workshops, and technical assistance. Under School policy, the days on which its internal consultants work outside their own departments, considered an incremental cost, are "sold" at a transfer price of US\$250 per day, which represents the average opportunity cost of a day in the Zamorano faculty.
- 3.25 Based on the needs of the participants in the project, technology packages will be developed with the technical support of Zamorano's departments. The School will further support component I activities with a mobile unit (agroindustrial plant) to be used an average of 80 days per year.

D. Target population

- 3.26 The project will benefit 1,960 participants from three different groups: (a) 1,480 small and medium-sized agricultural producers, microentrepreneurs and small and medium-sized agroindustrial businesses, formed into 40 organized groups, each group consisting of an average of 37 members participating in component I; (b) 180 officials of 30 training and technical assistance agencies, NGOs, 2/ and second-tier producer associations (each participant in turn will train at least five producers, so that the program will have 900 more indirect recipients); and (c) 300 young entrepreneurs who will take the component II courses. The young entrepreneurs will be selected for their qualities and potential for leadership of the same communities that make up the Component I target population.
- 3.27 The selection of participants will be based on technical, economic, organizational and social criteria. Basic criteria will include presenting ideas for starting businesses, setting up an organizational structure, willingness to pay for services received, and demonstrated interest in assuming the responsibilities inherent in the project. Annex III-7 includes lists of possible participants.

2/ The entities will be selected from 250 nongovernmental organizations operating in the country's rural areas, where they are engaged in training, agricultural and industrial development, marketing, and community commercialization, and from public sector agencies engaged in rural development. Source: Estudio de Demanda y Oferta de Capacitación en el Sector Agropecuario de Honduras [Study of training demand and supply in the Honduran agricultural sector] (IICA, 1994).

- 3.28 The project will encourage the participation of women as service users and give them opportunities to develop skills which they formerly applied on an informal basis and to acquire the ability to organize agroindustrial activities. The dynamic of the processing and industrialization of this sector presents opportunities for work that are attractive to women.
- 3.29 During the first year the groups will be selected primarily from the Yegüare Valley and neighboring areas, a preeminently agricultural region where small holdings averaging five hectares predominate, devoted mainly to subsistence farming. The inclusion of groups from Choluteca and Siguatepeque is tentatively planned for the second year. Conditions in these areas hold out a confirmed potential for the development of the program. In the second and third years, work will proceed primarily by economic categories, also in the region targeted in the first year.

E. Cost and financing

- 3.30 The total cost of the project is US\$2,687,500. Of that amount, 70% or US\$1,892,300 will come from MIF resources and the remaining 30% or US\$795,200 will be contributed by Zamorano (see Annex III-8).

COMPONENT	MIF (thousands of US\$)	ZAMORANO (thousands of US\$)	TOTAL
1. Entrepreneurial technical assistance			
- Delivery of services package	847.1	166.6	1,013.7
- Information systems	138.0	1.9	140.0
2. Trainer training and management support to young entrepreneurs	426.0	141.2	567.1
3. Monitoring, evaluation and follow-up system	201.8	----	201.8
4. Executing unit	279.5	23.6	303.1
5. Contingencies (5%)	---	111.3	111.3
6. Indirect costs		350.5	350.5
7. Total costs	1,892.4	795.3	2,687.5

- 3.31 The MIF local contribution consists of: payments to external and internal consultants for components I and II (20% paid in cash by Zamorano); a portion in cash of the incremental expenditures for administering the program, and all budgeted contingencies. Further counted as counterpart funds are 15% of total program costs, which represents a conservative estimate of the indirect costs (overhead, logistic and secretarial support, etc.) of running the program.

F. Disbursements

- 3.32 An advance will be made for the equivalent of 10% of total funding. To initiate disbursements for the program, the executing agency will be required to submit, to the Bank's satisfaction:
- a. A short list of the leaders and coordinators who will work in the units for the execution of each component;
 - b. Contracts signed with the coordinators for the first year of operations (see Annex III-9);
 - c. A business plan including a schedule of activities, financial plan, staffing and duties, technical marketing strategy, budget, cost of services, performance indicators for participants, and expected results;
 - d. A mechanism to phase in charges for training, technical assistance, and information services offered to the agricultural and agroindustrial producers, designed to have the project users gradually pay for those services themselves;
 - e. Eligibility criteria for the selection of groups, trainers, and young beneficiaries;
 - f. Approval by the School management of the obligation to provide local counterpart funds.

IV. RATIONALE AND RISKS

A. Project rationale

- 4.1 **Technical viability.** The conceptualization of the project reflects the needs of its clients and the experience of the Agribusiness Development Center in the execution of the agribusiness administration and rural agroindustry organization and administration subprograms, as well as the experience of the Rural Development Department.
- 4.2 The system of transferring integrated services packages, which this project exemplifies, is intended to raise productivity and incomes, cut production costs, and promote resource sustainability. The achievement of these goals will be measured by rigorous evaluation of how effective the Zamorano methodology is in informal education and how well it can be used in other settings.
- 4.3 This project could represent a strategic option for the competitive development of existing and potential small and medium-sized businesses in Honduras. This can be achieved through the

institutional system of technical support and business management offered by the School: the Agroindustrial Development Center, specializing in the identification of training and technical assistance priorities in response to the requests of groups in the agribusiness area (see Annex IV-1), and the Rural Development Department, including agronomy, horticulture, animal husbandry, and food technology.

- 4.4 Institutional and financial viability. Zamorano is an internationally known institution of higher education established in Honduras. For the project to be implemented in the time planned and meet its objectives, the executing unit will be set up within Zamorano with qualified staff, to the Bank's satisfaction. Given its experience in this type of endeavor, no institutional strengthening is provided for; however, provision has been made for the hiring of outside contractors to supplement the technical teams Zamorano will supply, as well as the acquisition of computer and office equipment and vehicles.
- 4.5 The main local inputs are 20% of internal consulting fees and the School's participation in the management of the program, both paid by Zamorano, and financial assistance from other donors and from the recipients (payment for services).

B. Cost recovery and program sustainability

- 4.6 The sustainability of the program will be ensured by the critical mass of producers and entrepreneurs with better technological training and decision-making ability who are motivated to achieve a higher level of technical education after seeing their earnings rise, and therefore are prepared to pay for training and technical assistance services that meet their ongoing needs and enable them to respond successfully to the growing demands of a competitive marketplace.
- 4.7 The program allows for the gradual introduction of the concept of payment for services delivered to agricultural producers and agroindustrial entrepreneurs, based on the financial benefits brought by the program. This practice is not common in Honduras, where subsidies and paternalism have been the rule. One method of payment might be through long-term service contracts, with payments based on increases in productivity or on services rendered by clients to the community, such as use of facilities, establishment of demonstration plots, work for the community, and the like.
- 4.8 The program funding will taper off toward the third year of implementation, as a result of the resources generated by the recipients themselves which make them financially self-sustaining because of their rising productivity and therefore income. They are accordingly expected to cover the costs of continuing training

and technical assistance provided by either Zamorano or other entities, at a low maintenance price.

- 4.9 For component I, several levels of payment will be defined in accordance with the financial capacity of the various groups of beneficiaries. In rough figures, the beneficiaries would cover up to 15% of the total services cost in the second year, and up to 25% in the third year. In the fourth year the technical assistance and information services would pay for themselves. The project is so structured that the recipient groups cover the costs of technical assistance from the fourth year on.
- 4.10 For component II, the recovery of program costs offered to the training agencies would be 30% each year; young students, given their high poverty level, would be granted full scholarships. Charging for training and technical assistance services is justified by the participants' expected greater willingness to pay after having seen the results of their training.

C. Potential environmental impact

- 4.11 Agricultural activity is not neutral with respect to environmental protection. The agricultural development process, based on technical progress, poses the risk of increased environmental pollution, erosion and other adverse effects.
- 4.12 Zamorano has an outstanding environmental record. This record was formally acknowledged this year when the Honduran government awarded Zamorano the Honduran Environmental Conservation and Protection Prize (see Annex IV-2).
- 4.13 Zamorano's concern for environmental conservation and protection will be reflected in this project by making six hours of instruction per week in natural resource conservation and environmental protection a part of all training activities. This instruction will include the rational use of agrochemicals, erosion control, reforestation, and projects that increase environmental well-being (e.g., through use of organic products).
- 4.14 To meet those objectives, service contracts will include clauses requiring registration in the Health Register maintained by the Foodstuffs Division of the Ministry of Public Health and adoption of practices consistent with environmental protection and natural resource conservation.

V. PROJECT ELIGIBILITY CRITERIA

- 5.1 General project eligibility criteria. The MIF funding for the execution of a pilot project designed to validate a methodology for

the development of small rural agroindustrial businesses is fully compatible with the MIF's general objectives, in particular facilitating of the development of the private sector as provided for in Article I(d)(ii) of the Agreement Establishing the MIF.

- 5.2 Project eligibility criteria of the Human Resources Facility. The proposed project meets the criteria for granting nonreimbursable funds under the Human Resources Facility pursuant to Article III, Section 3(a) of the Agreement Establishing the MIF, which establishes that resources will be provided for training designed to spur private investment.

VI. COMPATIBILITY WITH THE BANK'S COUNTRY PROGRAM

- 6.1 The project is consistent with the Bank's strategy for Honduras, which focuses on developing human capital, making private investment more productive, deregulating markets and making the State more efficient, providing support for the conversion of agriculture in order to make it competitive and responsive to demand (agricultural sector adjustment program, loan 737/OC-HO). The present operation is predicated on the participation of the population and the generation of technical assistance services to raise productivity in the rural agroindustrial business sector and thus ensure a sustainable income level and an improved quality of life, with emphasis on the most vulnerable groups.

VII. AVAILABILITY OF MIF RESOURCES

- 7.1 Funding modality. The project is to be financed by a grant in view of the following considerations: (a) the Donors Committee declared Honduras eligible for all MIF funding modalities in December 1993; (b) section III of the country eligibility memorandum details Honduras's compliance with the eligibility criteria for a country grant; and (c) the proposed project will have a significant catalytic impact of its innovative nature and the demonstration effect it will create, as required by Article III, Section 5(a) of the Agreement Establishing the MIF, with respect to the expansion of the private sector.

VIII. EX POST EVALUATION

- 8.1 The project evaluation will begin in the last year of implementation in order to determine whether the objectives were met and gauge the results. The evaluation will use the information generated by the monitoring system established at the outset of the

program and will include an analysis of the payment mechanisms, a quantitative assessment of the project's effects on the participants, and a qualitative study of the performance of young entrepreneurs, the executing unit, and the businesses involved. The ex post evaluation will include an analysis of project costs and benefits, and conclusions on the feasibility and advisability of expanding the project experience on a national scale.

- 8.2 Within six months following the signing of the agreement, the Bank will verify the hiring of consultants to perform the ex post evaluation of the program, and in the twelfth month of implementation the first evaluation will be conducted on the results achieved up to that date. The ex post evaluation of the entire project will be conducted within the six months following completion of implementation, and the consultant or firm hired will submit a final report within nine months following project completion.

HONDURAS
PILOT PROGRAM FOR RURAL ENTREPRENEURIAL DEVELOPMENT
LOGICAL FRAMEWORK

SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS/RISKS
Medium-sized agricultural producers and small agroindustrial producers in the Honduran rural sector, successful entrepreneurs based on agriculture and sound natural resource management.	Multiplier effect of the program measured in the number of entrepreneurs, the number of organized groups, the number of leaders, not covered by the program.	<ul style="list-style-type: none"> - Baseline study - Results of the survey conducted in the third year following program completion. 	Government policies continue to support the type of program.
Validated and transferred to the private sector the methodology for the conversion of small and medium-sized agricultural producers and agroindustrial entrepreneurs into successful entrepreneurs.	<p style="text-align: center;">YEAR</p> <p style="text-align: center;">1 2 3</p> <ul style="list-style-type: none"> - Successful entrepreneurs/OGs 1/ 0 4 8 - Participants in successful enterprises/OGs 0 148 296 - New enterprises/OGs 0 2 2 - Enterprises that have adopted at least one technology recommended for natural resource conservation and environmental protection. 0 8 16 - Developing organizations that have begun to adopt technology. 0 2 2 - Institutional analysis: Zamorano will raise funds from other donors to finance more rural outreach activities. 	<ul style="list-style-type: none"> - Baseline study - Result of surveys conducted during implementation (see activities, component 3) 	<ul style="list-style-type: none"> - The agencies trained by the project maintain their interest and possess the necessary resources (human and financial) to have a multiplier effect. - Zamorano continues to provide the methodology to the agents of change (organizations and young leaders) - Zamorano puts the partial cost recovery plan into practice and initiates complementary financing measures

groups.

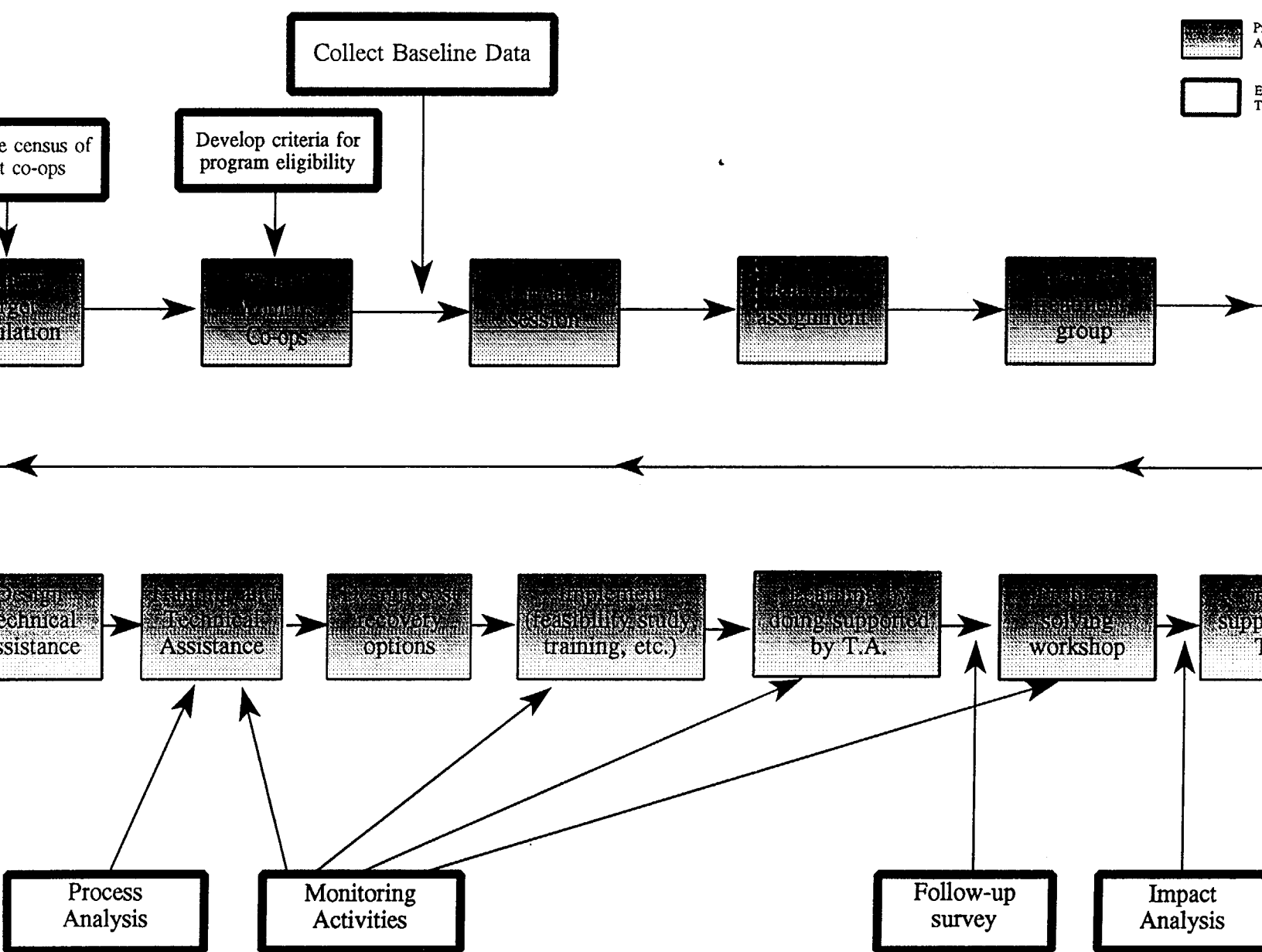
SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS/RISKS
<p>ITS</p> <p>assistance program ("learning") and training of entrepreneurs/organized groups, implemented.</p> <p>on system developed and implemented.</p> <p>leaders and trainers from government agencies trained.</p> <p>on and monitoring system implemented.</p>	<p style="text-align: center;">YEAR</p> <p style="text-align: center;">1 2 3</p> <p>1) 40 businesses have received technical assistance and training. Products targeted: 8.</p> <p>- Businesses that have received technical assistance and training</p> <p style="text-align: center;">8 16 16</p> <p>- Targeted items</p> <p style="text-align: center;">2 3 3</p> <p>Information system installed for eight items.</p> <p style="text-align: center;">2 3 3</p> <p>2) 300 young leaders and 30 development agencies have been trained.</p> <p>- Young leaders trained</p> <p style="text-align: center;">100 100 100</p> <p>- Development agencies trained</p> <p style="text-align: center;">15 15 15</p> <p>3) Five feedback and self-evaluation events completed.</p> <p style="text-align: center;">1 2 2</p>	<p>- Baseline study</p> <p>- Follow-up studies</p> <p>- Computerized project records</p> <p>- Access to relevant data base</p> <p>- Community information centers</p>	<p>- Availability of and access to credit</p> <p>- Government prices and marketing have favored the businesses/OGs</p> <p>- Weather conditions have favored production.</p> <p>- Converted businesses/OGs maintain comparative advantages.</p> <p>- Information concerning production, processing, transport and marketing has been appropriately furnished.</p>

SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS				MEANS OF VERIFICATION	ASSUMPTIONS/RISKS
	BUDGET IN US\$ (000), PER YEAR				Program budgets and project records	
	1	2	3	TOTAL		
assistance and training	<u>228.1</u>	<u>346.5</u>	<u>439.1</u>	<u>1,013.7</u>		- The entrepreneurs and organizations interested in participating in the program meet the requirements.
entrepreneurs/OGs						
assessment	19.6	0.0	0.0	19.6		- The internal consultants (Zamorano) are available, when needed.
of hiring and training	6.0	0.0	0.0	6.0		
services package	132.3	326.0	417.6	875.9		- Qualified external consultants express interest in participating in the program.
commitments	70.2	20.5	21.5	112.2		- Funding (MIF) is available when needed.
information systems	<u>40.5</u>	<u>48.5</u>	<u>50.9</u>	<u>139.9</u>	Program budgets and project records	
assessment of needs and	4.1	0.0	0.0	4.1		
available sources						
design and implementation of the	1.9	0.0	0.0	1.9		- The technology packages generated by Zamorano and other institutions are available when needed.
information system						
establishment of the information	0.0	17.0	17.8	34.8		
system						
commitments	34.5	31.5	33.1	99.1		- Qualified external consultants express interest in participating in the program.
entrepreneurs and trainers from	<u>200.1</u>	<u>179.1</u>	<u>188.0</u>	<u>567.1</u>		
government agencies	71.8	72.7	76.4	220.9		
government agencies	81.8	85.8	90.1	257.7		- Consulting firms and specialized institutions with experience in evaluating programs are interested in the program.
course design and preparation of						
materials						
implementation of courses						
follow-up on courses						
entrepreneurs	46.5	20.5	21.5	88.5	Program budgets and project records	
identification and selection						
training research						
course design and preparation of						
materials						
implementation of courses						
modules 2A and 2B	<u>99.4</u>	<u>62.6</u>	<u>39.8</u>	<u>201.8</u>		
evaluation and monitoring systems	<u>103.1</u>	<u>97.6</u>	<u>102.4</u>	<u>303.1</u>	Program budgets and project records	
for bids						
selection and contract signing						
implementation						
contract personnel (Z)	<u>33.6</u>	<u>36.7</u>	<u>41.0</u>	<u>111.3</u>		
training unit 2/						
agencies 5%						
costs (15%)	105.7	115.6	129.2	350.5		
TOTAL	810.5	886.5	990.4	2,687.5		

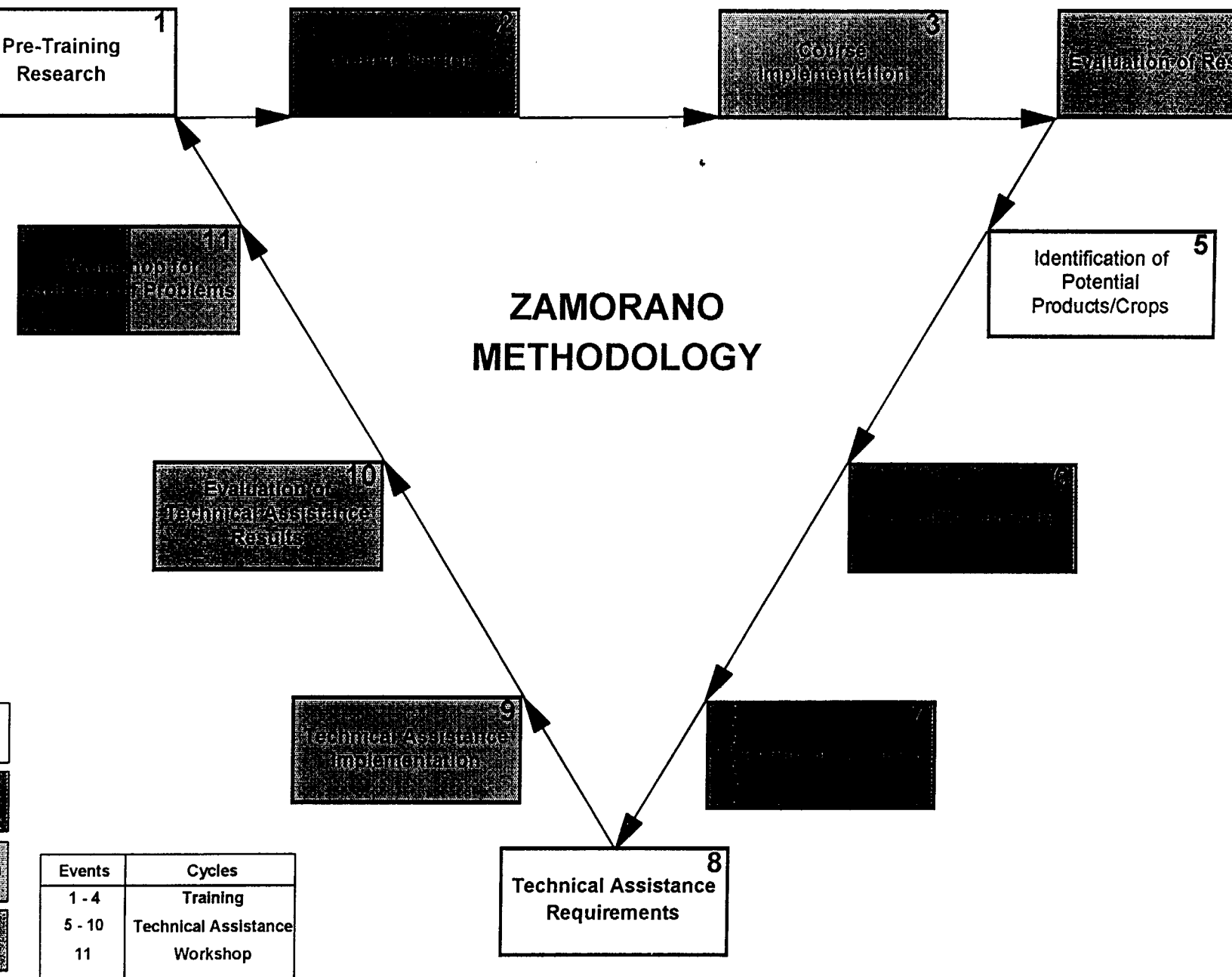
The Technical Committee, permanent staff (leader, co-leader), coordinators, contract personnel (administrator, assistant to the administrator, secretary), who will be responsible for managing the program.

Annex III-2

Integration of Program Implementation, Monitoring, and Evaluation Activities



TECHNICAL SERVICES FLOWCHART



Activity Scheduling of the Component Training and Technical Assistance to Organized Groups

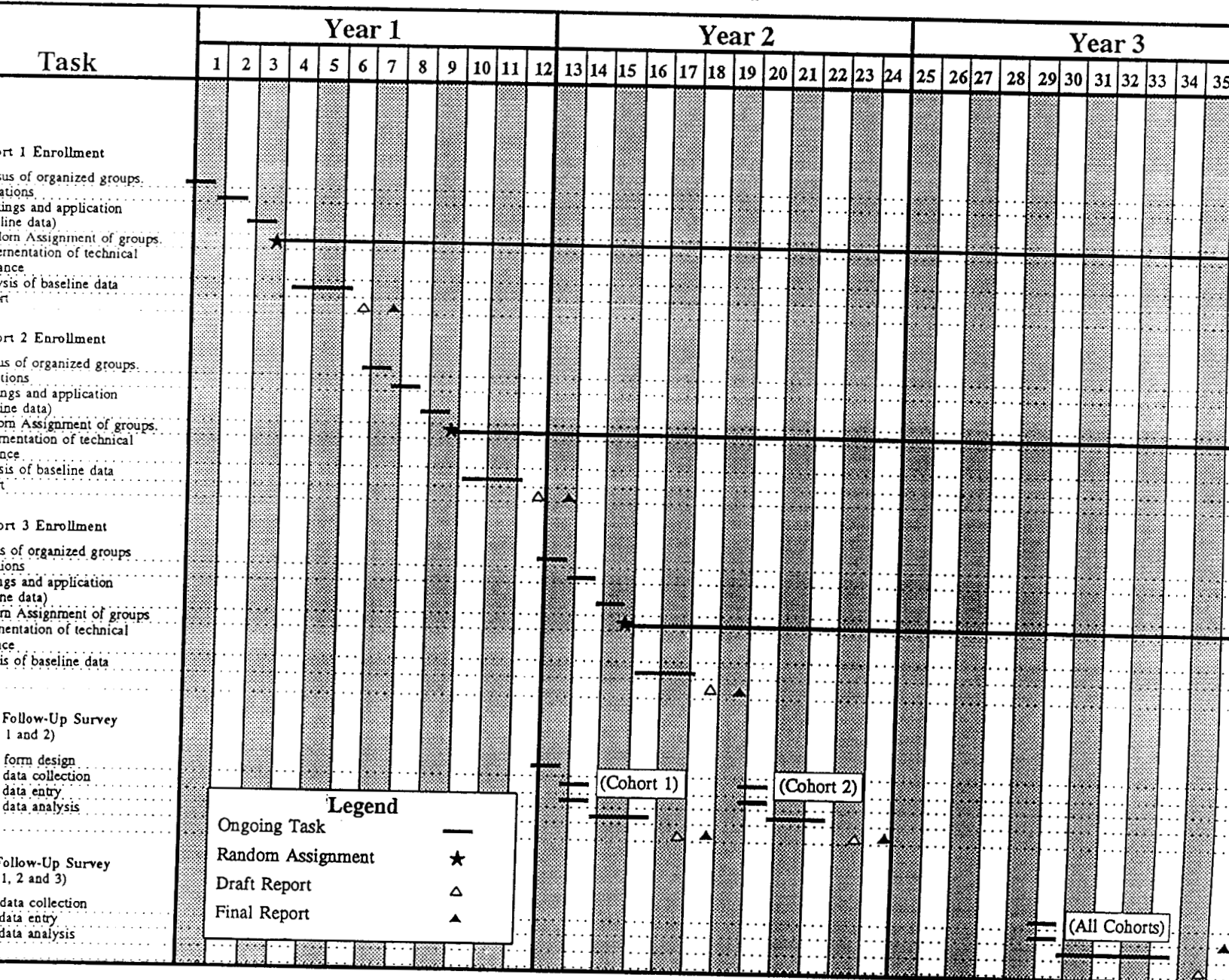
Number of Groups participating in Component I	YEAR 1 (1996)	YEAR 2 (1997)	YEAR 3 (1998)	YEAR 4 (1999)	YEAR 5 (2000)
#1 to #8 (8 Organized Groups)	STAGE 1	STAGE 2	STAGE 3		
#9 to #24 (16 Organized Groups)		STAGE 1	STAGE 2	STAGE 3	
#25 to #40 (16 Organized Groups)			STAGE 1	STAGE 2	STAGE 3
40 Organized Groups					

STAGE 1: The full package, **Training, Technical Assistance and Workshop for Resolution of Problems** will be offered. The full package is comprised of 11 events (See Annex III-3).

STAGE 2: Only the **Technical Assistance and Workshop for Resolution of Problems** Cycle will be offered: it has 7 events

STAGE 3: The **Evaluation and Monitoring** continues throughout the whole program developed during the first and second years.

Annex III-5
Timetable of Activities for the
Evaluation and Monitoring Component



DESCRIPTION OF THE MONITORING AND EVALUATION COMPONENT

I. INTRODUCTION

- 1.1 As stated in the Logframe, the **goal** of the project is to transform small producers and entrepreneurs into successful enterprises in agro-industry and agribusiness. The **purpose** of the project is described in the Logframe as the validation of a methodology that can achieve the project's goal. The challenge facing Zamorano is how to achieve both the goal and purpose of the project.
- 1.2 Zamorano's methodology for providing technical assistance has been developed over the past few years and has been used effectively in a small number of cases. The present project, the Program for Rural Entrepreneurship Development, will provide an opportunity to refine this methodology and to rigorously evaluate its effectiveness.
- 1.3 Without a rigorous evaluation, few people in the research, academic, and donor communities will be convinced of the effectiveness of Zamorano's methodology. With a rigorous evaluation, the donor community will have information to assess whether the Zamorano methodology is effective and whether it should be replicated elsewhere. Indeed, if the evaluation results are positive, the Zamorano methodology could become a model for rural development in the region.
- 1.4 One rigorous evaluation design that has proven successful in testing program effectiveness, is the **classical experimental evaluation design**. This approach is practical, extremely powerful, and easily explained to policymakers. To use this approach, we first identify a target population of eligible participants. Next, we randomly assign program participants into treatment and control groups. The treatment group receives all program services, while the control group does not. Both groups are then interviewed at fixed time intervals to measure such indicators as earnings, children's educational attainment, and other measures of the quality of life. Finally, we measure program impacts by comparing these outcomes for the treatment and control groups. The impact on, for example, earnings is simply the difference in the mean earnings of the treatment and control groups.

II. MONITORING AND EVALUATION COMPONENT

- 2.1 The monitoring and evaluation component is extremely important to the overall success of the project. While similar statements are made about most technical assistance projects, it is particularly important in this project since this project is a pilot to implement a methodology that could serve as a model for similar projects throughout the region. This ambitious goal cannot be achieved without a rigorous, objective, and independent monitoring and evaluation component.
- 2.2 Before presenting the classical experimental evaluation design that will be used in this study, it is important to address the organization and staffing of the monitoring and evaluation component. Specifically, we address the relationship between the monitoring and evaluation unit and the implementation unit.

1. Evaluation Activities

- 2.3 For the evaluation activities to be widely accepted by the outside world, the evaluation must be viewed as rigorous, objective, and independent. Clearly, if the same unit within Zamorano is responsible for both the implementation and evaluation components, questions may arise about the objectivity of the evaluation. To deal with this issue, one could assign the implementation and evaluation components to different units within Zamorano. While this approach may reduce concerns about objectivity, it will not substantially reduce concerns about the independence of the evaluation results since both implementation and evaluation functions are under Zamorano control.
- 2.4 To achieve both objectivity and independence, it may be necessary for Zamorano to completely separate the two functions. This can be realized by assigning the evaluation component to an outside independent contractor. While this approach will enhance the objectivity and the independence of the evaluation, it may not be feasible within the project's budget.
- 2.5 A third alternative organizational structure is a hybrid of the two options presented above. In this structure, a Zamorano evaluation unit will retain responsibility for the evaluation component, but would seek technical assistance from a well-respected international contractor. The involvement of an independent contractor would have several benefits. First, it would substantially enhance the credibility of the evaluation. Second, an international research contractor would provide the project with state-of-the-art impact evaluation technology. Third, the use of advanced evaluation technology in this project would enhance the local capacity to implement rigorous impact evaluations in the future. Based on these reasons, Zamorano will involve an international contractor to assist in the design and implementation of the evaluation activities.

2. Monitoring Activities

- 2.6 The purpose of project monitoring is to assist the implementation unit to effectively manage program services. The monitoring function will be designed to provide feedback about service delivery to the implementation unit. This feedback can then be used by the implementation unit to adjust the methodology during the project implementation phase.
- 2.7 It should be emphasized that project monitoring functions should support the implementation functions; it should not serve an auditing function. In fact, the information needed for project monitoring should be derived from the implementation service records and need not be collected independently. This information from the service records should be forwarded to the evaluation unit which will organize the data into useful summary reports (e.g., every three months). Based on these summary reports, the implementation unit or the evaluation unit may identify issues for further investigation. Furthermore, based on these monitoring reports, the implementation unit may alter a service component or adjust the type or frequency of its services.
- 2.8 The project monitoring function could be implemented by either the implementation unit or by the evaluation unit. Whichever group implements the monitoring function is not critical. What is critical, however, is that the monitoring function enhance, rather than hinder, the implementation of service delivery.

III. EVALUATION METHODOLOGY

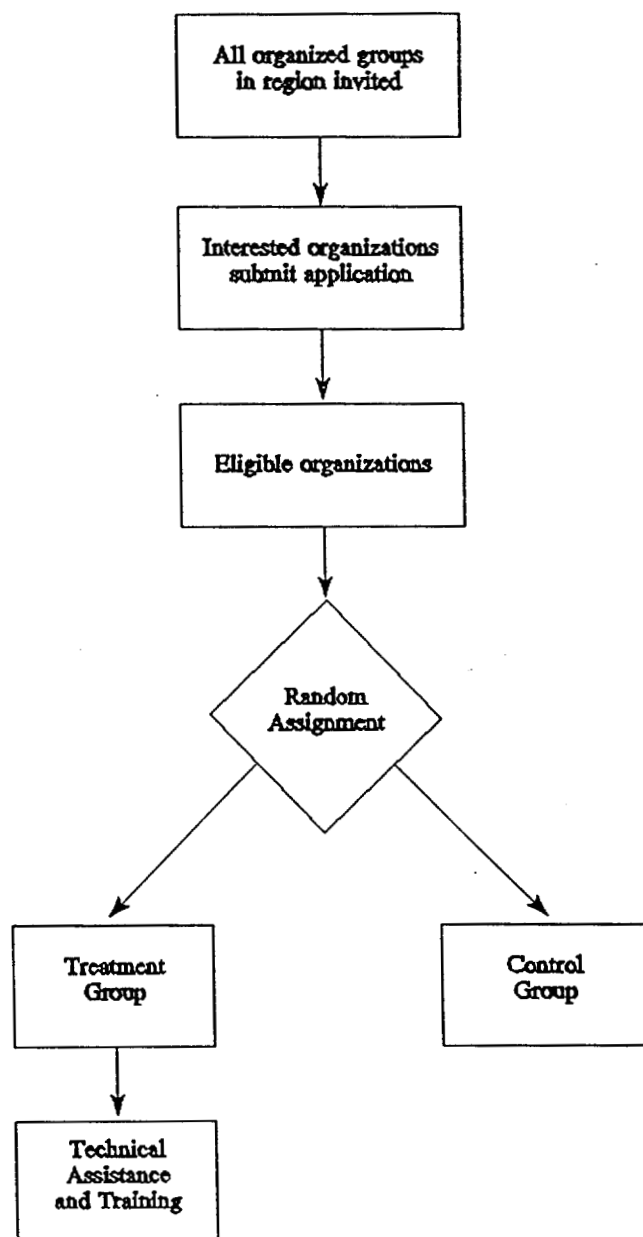
- 3.1 The evaluation methodology that will be used in this study is known as the classical experimental methodology. In the following sections we outline the details of the classical experimental evaluation designs to be used in evaluating the impact of the technical assistance and training component and for evaluating the impact of the youth leadership training component. A third component, the training of development organizations will not use an experimental design.

1. Technical Assistance and Training

- 3.2 It is estimated that there are currently 32 organized groups eligible to participate in the technical assistance and training program. This estimate is based on a study, completed several years ago, of cooperatives in the Zamorano watershed region. Before the project gets underway, it is important to update this information and determine the exact number of eligible participants. The first project task should, therefore, be a census of organized groups in the region.
- 3.3 In Exhibit 1 we present a diagram of the proposed experimental evaluation design to be used in the Technical Assistance and

Exhibit 1

**Program for Rural Enterprise
Development
Intake and Assignment Procedures**



Training of Entrepreneurs component (Component #1). It is important to note that under this methodology, services are provided to the maximum number of participants that the budget can support. For example, if the project budget can support services to a maximum of 10 organized groups, the experimental evaluation design will accommodate 10 organized groups. If, on the other hand, the project budget can support a larger number of participants, then the design can easily be adjusted to accommodate the larger number of participants. Thus, this design does not affect the total number of participants receiving program services. The experimental design only affects the selection of the participants. To clarify this issue we describe the steps in the intake and assignment procedures below.

- 3.4 **Target Population.** The target population for project services will include all existing organized groups as well as newly organized groups in the region. In fact, some individual entrepreneurs may wish to organize themselves into groups specifically to become eligible for technical assistance through this project. Indeed, the project will encourage the formation of new groups, particularly new women's groups, to organize and become eligible for project services. For purposes of discussion, we assume that there will be 40 organized groups eligible for participation in the project.
- 3.5 **Recruitment.** It is important to recruit into the project highly motivated groups. Since it is difficult to measure motivation, we will use self-selection to help us identify the most motivated groups. The following procedure can be used in identifying the most motivated groups for the program.
- 3.6 All known organized groups will be invited to an information meeting about the program. In addition, we will invite other individuals who may have an interest and/or capacity to organize new groups. In particular, we will encourage women entrepreneurs to form new women's groups or to join men's groups so that more women will be eligible to receive program services.
- 3.7 At the information meeting, those in attendance will receive detailed information about participation in the program. They will, for example, be informed about the technical assistance services, the potential benefits of the program, and the responsibilities of participants. They will also be informed about eligibility criteria. For example, the eligibility criteria may include:
 - having at least 10 members,
 - having a sound business idea, and
 - having an elected board.

- 3.8 Additional eligibility criteria will be developed in the early stages of the project using information from the census of organized groups.
- 3.9 Finally, those attending the meeting will be informed that this project is a small pilot and, therefore, cannot accommodate all eligible applicants. Only some of the applicants will be accepted into the program. The selection process will be through a lottery system. In this lottery, everyone who meets the eligibility criteria will have an equal chance of acceptance into the program.
- 3.10 At the end of the meeting, each attendee will receive a packet of information about the program as well as an application form. The application form will be designed to collect baseline information as well as information about the group's interest and needs. For a group to be considered for participation in the program, its applications must be submitted by a fixed date (e.g., 14 days after the meeting). Failure to submit the application on time will eliminate the group from consideration. In this way we use self-selection to identify the most motivated groups.
- 3.11 **Random Assignment.** Project staff will then review the applications for completeness and to ensure that each group has a sound business idea and understands the project services. For discussion purposes, we assume that a total of 25 groups submit an application and are eligible for inclusion into the project. At this point, we will randomly assign 10 groups to the treatment group and 10 groups to the control group. The remaining 5 groups are not included in either group and of no interest to the study. Again, we must emphasize that the budget can only accommodate 10 organized groups in the first year (20 groups in year 2 and 20 groups in year 3). As a result, our design calls for providing services to the maximum number of groups that the budget will accommodate.
- 3.12 The accuracy of random assignment is critical to the integrity of the evaluation and, therefore, must be conducted rigorously. The evaluation unit must develop a methodology which prevents any tampering with the process.
- 3.13 **Implementation of Technical Assistance.** The project implementation unit will then provide technical assistance and training services to members of the treatment group. Indeed, if new groups form within the treatment groups (e.g., wives in one of the groups forms a separate organized group), the implementation unit may provide services to the new group. Under no circumstances, however, should services be provided to control group members.
- 3.14 **Follow-up Surveys.** One year after the random assignment date, the treatment and control groups will be interviewed by evaluation unit staff. The survey will collect information about earnings, assets, farming activities, marketing activities, education, health, access to services, access to information, quality of services received,

value of services received, and suggestions for improvements and/or additional services. The information from these surveys will be coded and entered into a computer file. The data will then be analyzed to derive preliminary impacts of the program. Clearly, for many outcomes, there will not have been enough elapsed time to substantially affect outcomes. This first analysis should, therefore, be viewed as preliminary.

- 3.15 **Process Analysis.** During the first year of project, the evaluation unit should document the technical assistance and training services provided to participants. This documentation will be an important adjunct to the impact analysis and will aid in understanding the impact results. It will also provide the information necessary for other organizations to implement similar technical assistance programs.
- 3.16 **Impact Analyses.** Using the follow-up survey data, together with baseline data and information from the process analysis, the evaluation unit will prepare the First Impact Evaluation Report. This report will compare the preliminary outcomes of the treatment group with the outcomes of the control group. The report will also evaluate the services that have been provided and identify areas of concern to program participants.
- 3.17 The first cohort will be interviewed for a second time at approximately two years after random assignment. This interview will largely replicate the first follow-up survey. The data collected in the second (and final) survey will be used in the final analysis of program impacts.

2. Youth Leadership Training

- 3.18 In many ways, the design of the Youth Leadership Training component is similar to the organized groups' technical assistance and training component. Specifically, participants for this program will be selected randomly from among a group of interested students who apply to the program. Treatment group members will receive training services while control group members will not. Both groups will then be interviewed approximately one year after random assignment and the data will be analyzed to measure program impacts. We briefly describe some of the design components below.
- 3.19 **Targeting.** Participants for this program will be selected from among the students of the four high schools in the Zamorano region. One targeting approach is to ask each school's administration to nominate students (perhaps 70) who might benefit from such a training program.
- 3.20 **Recruitment.** The targeted students from each of the four high schools would then be invited to attend an orientation session. Those students who attend the orientation will be invited to complete a baseline questionnaire and application.

- 3.21 **Random Assignment.** From among those who submit an application, 25 from each school will be randomly assigned to the treatment group and 25 from each school will be assigned to the control group. The same procedure will be followed in each of the four high schools, yielding a total sample of 100 treatment group members and 100 control group members.
- 3.22 **Implementation of Technical Assistance.** The project implementation unit will then provide technical assistance and training services to members of the treatment group.
- 3.23 **Follow-up Surveys.** One year after the random assignment date, the treatment and control groups will be interviewed by evaluation unit staff.
- 3.24 **Process Analysis.** During the first year of project, the evaluation unit will document the technical assistance and training services provided to participants.
- 3.25 **Impact Analyses.** Using the follow-up survey data, together with baseline data and information from the process analysis, the evaluation unit will analyze the program impacts.

3. Training for development organizations

- 3.26 The evaluation of training services for development organizations will not utilize an experimental evaluation design. Instead, we will simply monitor the number of trainers that have received training through the program. During the project, we will interview the development organizations that received training services through the project. We will collect information on the organizations' own assessment of the services they received. We will also collect information on how many clients were trained using the information obtained through this program.
- 3.27 The development groups will be monitored regularly in order to provide feedback to the trainers. In this way, the training program can be refined continuously throughout the project. An evaluation of this training component will be presented in the final report.

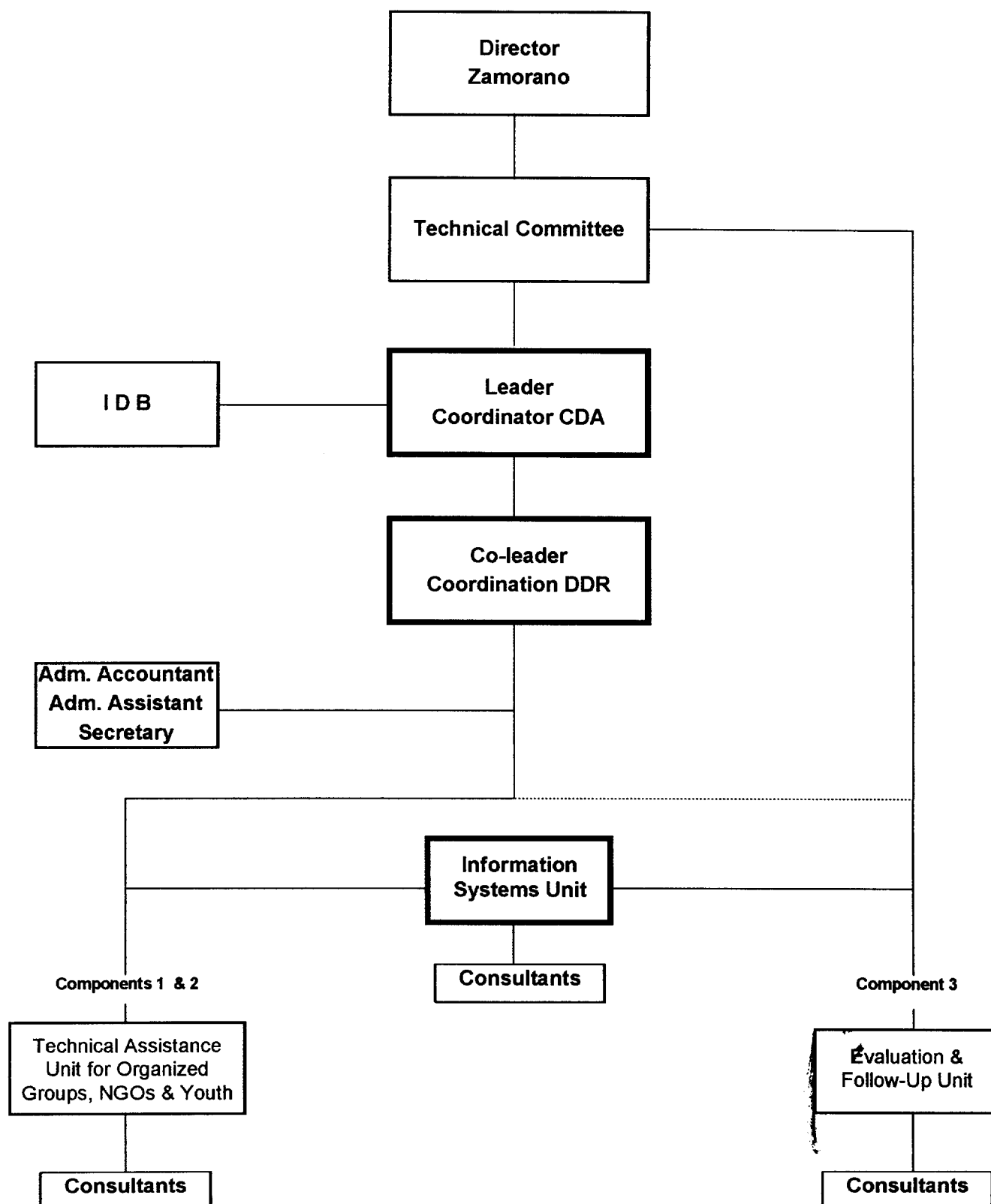
IV. EVALUATION COMPONENT IMPLEMENTATION

- 4.1 Annex with the Program Timetable presents the sequence of steps for implementing the evaluation of the Technical Assistance and Training of Entrepreneurs component. As described above, the evaluation of this component begins with a census of the organized groups. In month 2, invitations will be sent to all the organized groups identified by the census. These groups will be instructed to submit an application in month 3. The random assignment to treatment and control groups will take place at the beginning of month 4 at which time the implementation of technical assistance

will also begin. The analysis of the baseline data will begin in the middle of month 4 which will lead to a report at the end of month 7.

- 4.2 The recruitment and enrollment of the second cohort will follow similar sequence of steps beginning in month 7. This cohort will include 20 organized groups in contrast to the 10 groups in cohort 1. The recruitment and enrollment of cohort 3 (also containing 20 organized groups) will begin in month 13. The implementation of technical assistance for cohorts 2 will begin in month 10; for cohort 3, technical assistance will begin in month 16.
- 4.3 For cohorts 1 and 2, the first follow-up surveys will be administered twelve months after random assignment. Thus, cohort 1 will be surveyed in month 14 and cohort 2 in month 20. In both instances, the data entry and analysis will be carried out over the two-month period following each survey. Reports based on these surveys will be submitted at the end of months 18 and 24. The final follow-up survey will be administered to all three cohorts in month 30, followed by data entry and analysis between month 31 and 35. The final impact report will be completed in month 36. Note that cohort 3 will only be interviewed once -- at the final follow-up survey. This evaluation implementation plan will yield the following observation periods: 27 months for cohort 1, 20 months for cohort 2, and 15 months for cohort 3.
- 4.4 The above implementation plan supports a rigorous evaluation of the Technical Assistance and Training of Entrepreneurs component. A similar implementation plan will be developed for the Training of Young Leaders and Training for Development Organizations and Associations of Producers components.

HONDURAS
Rural Entrepreneurship Development Program in Honduras
Multilateral Investment Fund
Organizational Chart of the Executing Unit



PROPOSED RESOLUTION

HONDURAS. NONREIMBURSABLE TECHNICAL COOPERATION
FOR THE RURAL ENTREPRENEURIAL DEVELOPMENT PROGRAM OF HONDURAS

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Escuela Agrícola Panamericana, Inc., and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT- with respect to a nonreimbursable technical cooperation for the Rural Entrepreneurial Development Program of Honduras.

2. That up to the amount of US\$1,892,300, or its equivalent, is authorized for the purpose of this resolution, chargeable to the resources of the Human Resources Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.