



Social Entrepreneurship Program

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To: The Board of Executive Directors
From: The Secretary
Subject: Honduras. Executive summary of a proposal for financing and technical-cooperation funding for beekeeping as an alternative farm enterprise

Inquiries to: Mrs. María Teresa Villanueva (extension 3128)

Remarks: This operation is presented in accordance with Resolution DE-183/98 authorizing the “Reform of the Small Projects Program and creation of a Social Entrepreneurship Program”, and meets the criteria established in document GP-75-9.

On **17 December 2003**, the date on which the five-day circulation period required for this document expires, the President, or such officer as he may designate, will approve this operation.

Reference: GP-75-9(11/98)

**Other
distribution:** Representative in Honduras

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HONDURAS

SOCIAL ENTREPRENEURSHIP PROGRAM

BEEKEEPING AS AN ALTERNATIVE FARM ENTERPRISE

(SP/TC-03-03-00-9)

FINANCING AND TECHNICAL COOPERATION PROPOSAL

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ABBREVIATIONS

AESMO	Asociación Ecológica de San Marcos de Ocotepeque [San Marcos de Ocotepeque Ecological Association]
ANAPIH	Asociación Nacional Apícola de Honduras [National Beekeeping Association of Honduras]
APICRED	Servicio de crédito apícola, the BANHCAFÉ beekeeping credit facility for the project
BANHCAFÉ	Banco Hondureño del Café
COAPIHL	Cooperativa Agropecuaria Apícola Pionera de Honduras Limitada
COSUDE	Swiss Agency for Development and Cooperation
DMB	BANHCAFÉ Microfinance Division
EAP/Zamorano	Escuela Agrícola Panamericana (El Zamorano) [Pan-American Agricultural School]
FSO	Fund for Special Operations
IFI	Intermediary financial institution acting as portfolio manager
NGO	Nongovernmental organization
CT	Project coordination team
Swisscontact	Swiss Foundation for Technical Assistance

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EXECUTIVE SUMMARY

Executing agency: The reimbursable financing component will be executed by Banco Hondureño del Café (BANHCAFÉ).

The nonreimbursable technical cooperation component will be executed by the Swiss Foundation for Technical Assistance (Swisscontact).

Amount and source:	<u>IDB (US\$)</u>	<u>Local (US\$)</u>	<u>Total (US\$)</u>
Financing:	360,000	90,000	450,000
Nonreimbursable technical cooperation:	<u>250,000</u>	<u>148,000</u>	<u>398,000</u>
Total:	610,000	238,000	848,000

Resources will be drawn from the Fund for Special Operations (FSO) in foreign exchange.

Terms and conditions:	Amortization period:	10 years
	Grace period:	4 years
	Disbursement period (financing):	52 months
	Execution period (financing):	48 months
	Interest rate:	3% real

The grace period will apply solely to amortization of principal, not interest. The loan will be denominated in local currency (lempiras). Payment of maintenance of value will be added to the interest rate, based on the annualized consumer price index (IPC) for the previous six months as published by the Central Bank of Honduras.

Problem to be addressed:

Growing and selling coffee has been the main source of income for some 71,000 farmers in Honduras, 90% of them on a small scale. Yet local production has been hard hit by falling international coffee prices, leading to high unemployment and a widespread decline in quality of life, especially among the rural population. The outlook for most micro- and small-scale coffee growers in Honduras is dim, given international price drops and low productivity. Most of the country's coffee-growing areas have the right combination of natural conditions for profitable honey production, making it an excellent alternative for small-scale coffee growers.

While beekeeping is a viable alternative for coffee growers, a lack of access to *end-to-end* technical and financial assistance has hindered its development in the coffee sector.

If small-scale coffee growers with existing beekeeping operations and those wishing to diversify their income in this way are to exploit and create market opportunities competitively, they need a strategy to counter the shortcomings of (i) low productivity; (ii) low-quality production and processing of honey and other bee products; and (iii) little or no access to credit.

Objectives:

The program seeks to raise the income of 300 families of small-scale farmers, promoting the sustainable business development of beekeeping as an alternative activity through an end-to-end strategy targeting the coffee sector.

The four-pronged strategy is to: (i) boost farm output and business management capacity; (ii) increase the number of beekeepers; (iii) make products more competitive in terms of quality, added value, and marketing strategy; and (iv) make it easier for small-scale farmers to obtain credit, so they can put more beehives into production.

Description:

Reimbursable financing component (IDB: US\$360,000; BANHCAFÉ: US\$90,000)

These funds will be used to set up a revolving fund and the APICRED beekeeping credit facility to finance: (i) working capital needs of small-scale farmers and (ii) capital deepening through the purchase of beehives and beekeeping supplies and equipment.

Nonreimbursable technical cooperation component (IDB: US\$250,000; Swisscontact: US\$148,000)

Activities to build farm output and business management capacity and increase the number of beekeepers will include: (i) hiring an international beekeeping expert to optimize and update executing

agency know-how in bee farm management and product diversification; (ii) refresher training to a group of local beekeeping specialists and filling in any gaps in their knowledge, so that they can provide services to the small-scale beekeepers who are the project's beneficiaries; (iii) direct technical assistance and training to beekeepers under a program designed to make them more productive and competitive, and build their business management capacity, for a more profitable beekeeping industry; and (iv) forming a group of leading beekeepers, to help pass on basic production know-how in the long term.

Actions to make products more competitive in terms of quality, added value, and marketing strategy will include: (i) direct technical assistance and training to establish basic quality criteria under standard operating and sanitary procedures (POES), to bring quality and competitiveness up to the standards of more competitive markets; (ii) design and promotion of a marketing strategy for the products of small-scale beekeepers; and (iii) introduction of hybrids and providing beekeepers with queen rearing assistance and queen cells, to increase output of higher quality honey.

Ongoing monitoring of project activities will support component execution and oversight, as well as operational decision-making.

**Environmental
and social
review:**

The Committee on Environment and Social Impact (CESI) reviewed the operation at meeting 03/38 of 17 October 2003. The project has virtually no adverse environmental impact, given its focus on optimization of environmentally friendly beekeeping methods and sustainable development of resources. Hybrids will be introduced under tight controls on their behavior and adaptation. Regarding the use of forest resources to build and supply hives, the project can draw on environmental beekeeping organizations to monitor and verify that sustainable methods are employed. Technical assistance and training will cover food safety requirements. The loan component will finance the purchase of proper hive management equipment to reduce occupational hazards. All project components, including the financing, will encourage greater *participation of women*.

Coordination with other donors:

Project development and design were participatory and inclusive of stakeholders in the beekeeping sector. Actively involved, in addition to the Swiss Agency for Development and Cooperation (COSUDE) through its project with Swisscontact, were the Pan-American Agricultural School (EAP/Zamorano), the San Marcos de Ocotepeque Ecological Association (AESMO), and Cooperativa Agropecuaria Apícola Pionera de Honduras Limitada (COAPIHL). Specifically, EAP/Zamorano supported project design through its team of beekeeping experts and experience with donors, such as the United States Agency for International Development (USAID) on the post-Mitch agricultural reactivation project. Close coordination with other donors and organizations active in the sector will continue during project execution.

Beneficiaries:

The project will directly benefit nearly 300 families of small-scale farmers, mainly coffee growers across five departments of Honduras. Indirectly, the project will benefit at least four beekeeping organizations and 1,500 farm household members. The project will target 200 working beekeepers, mainly small-scale coffee growers for whom beekeeping is a complementary activity, as well as 100 coffee growers who will receive assistance in starting up beekeeping operations.

As an additional impact, the project will provide a structure for beneficiaries' marketing and production activities that can be held up as an example to other farmers in the region who need to diversify their income. The project should enable 300 men and women engaged in small-scale farming to build an average of 30 hives each with an average yield of 27 kilos per hive, while managing their operations profitably. The financing will also support five or six microenterprises that provide products and services to small-scale beekeepers.

Risks

The project carries three main risks: (i) interagency coordination calls for additional effort by those involved in joint activities, often at a cost in terms of efficiency; (ii) the debt forgiveness mandated by the government of Honduras has distorted the lending market and encouraged a culture of nonpayment, which is a challenge to overcome; and (iii) the presence of Africanized bees may discourage new beekeepers.

The first risk will be minimized through a simple interagency coordination mechanism involving the project coordination team. Agency commitments will be set down in formal agreements among the participants. Ongoing monitoring and oversight of project execution will also be used to make corrections along the way.

The second risk will be allayed through credit regulations and a lending methodology validated by BANHCAFÉ. BANHCAFÉ will assume the credit risk, manage the portfolio, and have the greatest stake in limiting its exposure, so it will be rigorous in evaluating profiles and selecting participants. BANHCAFÉ'S coffee-sector experience and knowledge will help it be selective and keep its risks low. The selection criteria are given in the credit regulations.

Regarding the risk associated with Africanized bees, their high honey output is already incentive enough for beekeepers to cope with their aggressiveness. But even so, the technical cooperation component mitigates this risk by: (i) introducing hybrids; (ii) developing a technical assistance and training plan to build practical beekeeping skills; (iii) conducting field visits to provide additional support to farmers; and (iv) supplying farmers with the right equipment to avoid occupational hazards.

The Bank's and government's strategy:

The activities under the proposed operation are in keeping with the Bank's country strategy with Honduras as set out in country paper GN-2238-1, approved 4 February 2003. It states that: (i) faster, sustainable growth is the cornerstone of the Bank's strategy for Honduras and of the Poverty Reduction Strategy, since it is a prerequisite for reducing poverty; (ii) speeding up growth in the country calls for more competitive goods and services, especially in light of CAFTA, FTAA, and renewed efforts to bring about Central American integration and the Puebla-Panama Plan; and (iii) the country strategy will support creating a climate conducive to investment, and lowering operating and logistical costs of doing business, with a focus on rural economic development.

This operation also complements activities under the program for revitalization of the rural economy (HO-0144), inasmuch as beekeeping infrastructure funded by HO-0144 was a factor in selecting the areas to be targeted. Actions to support the competitive diversification of coffee growers under program ATN/FC-8353-RS will also be taken into account, so that the Bank's efforts in this area will be coordinated and complementary.

The operation also meets the criteria of the social entrepreneurship program, inasmuch as its end beneficiaries are small-scale farmers in economically depressed rural areas, especially coffee growers experiencing hardship, whose income would benefit from an alternative activity to complement their farming activities during the coffee crisis.

Rationale:	<p>The case for the proposed project is as follows: (i) weathering one of its worst crises ever, Honduras's coffee sector needs to diversify into other, complementary farm activities; (ii) beekeeping is a diversification option that can readily be introduced, especially in the coffee sector with its practice of single-crop farming; (iii) most existing beekeepers also grow coffee, which shows that the two activities are compatible and the project is viable; (iv) beekeeping is a profitable business that, while slow to generate returns initially, may well develop into a principal activity once a productive base is established in the third or fourth year; (v) the institutional synergy built into the project will enhance its impact; (vi) the proposal comes at a time when institutions are ready, willing, and able to promote beekeeping as a business, among them BANHCAFÉ, Swisscontact, the National Beekeeping Association of Honduras (ANAPIH), AESMO, and EAP/Zamorano; and (vii) the proposed project targets a sector in need of opportunities and comprehensive strategies for economic and productive development.</p>
Special contractual clauses:	<p>As a condition precedent to the first disbursement of technical cooperation funding, Swisscontact will provide, to the Bank's satisfaction, an adjusted project execution plan that includes: (i) annual targets for project objectives and outcomes; (ii) the terms of reference for hiring the international expert and beekeeping specialists to provide direct technical assistance and training; and (iii) evidence that the project coordination team (PCT) has been set up.</p> <p>Swisscontact needs to hire the expert and beekeeping specialists immediately. Accordingly, the revolving fund for technical cooperation resources will be for up to 20% of the total financing allocated for this component.</p> <p>As a condition precedent to the first disbursement of the financing component, BANHCAFÉ will provide, to the Bank's satisfaction: (i) a status update on its loan portfolio, including loans managed by its Microfinance Division; (ii) the credit regulations approved by BANHCAFÉ's board of directors; (iii) a project outreach work plan agreed upon with Swisscontact, based on the criteria and mechanisms of the Plan of Operations (Annex I); and (iv) evidence of appointment of the Microfinance Division's representative to the PCT.</p>
Reports and evaluations:	<p>Swisscontact and BANHCAFÉ will deliver progress reports to the Bank's Country Office jointly, through the PCT, within 60 days after the close of each semiannual period, and a final report within 60 days after the close of the last disbursement period. The reports will contain: (i) a description of project execution progress with performance indicators and setbacks in meeting the project targets and</p>

objectives; (ii) information on benefits transferred to farmers in economic terms and in terms of technical assistance and training; (iii) the number of loans made to beekeepers and the interest rates granted by BANHCAFÉ to loan fund customers; (iv) progress on development and execution of the marketing strategy; (v) reports of consultants and beekeeping experts hired to execute the technical cooperation component, as they relate to project execution; (vi) the status of training to honey producers and other technical cooperation activities; (vii) information on the execution of environmental and gender activities; (viii) a financial report on how Bank resources and counterpart contributions have been employed; and (ix) statistics and financial data on project economic performance and the percentage of work completed. Swisscontact's reports will include information on cooperation agreements entered into with other beekeeping organizations and performance in relation to their commitments under those agreements.

The first project report will review and update the baseline set in the project logical framework and compile socioeconomic data on the target group before project activities begin, for comparison with the change in beneficiary income. Each subsequent semiannual report will provide current data.

The Bank will review the content, findings, and recommendations contained in these reports. In the event of material shortfalls in project execution, the Bank may suspend disbursements under the project until such time as Swisscontact and/or BANHCAFÉ have taken satisfactory corrective action, as necessary.

Audited annual financial reports on the financing component. BANHCAFÉ will provide the Bank with its audited financial statements, including an independent financial report on how the Bank contribution has been used, within 120 days after the close of each fiscal year, starting in the year corresponding to the fiscal year in which disbursement of the financing component begins and continuing through the end of the project execution period.

Swisscontact will provide an audited financial report on how the Bank contribution is used, within 90 days after the close of the last disbursement period of the nonreimbursable technical cooperation component.

The Bank, through its Country Office in Honduras, will conduct a *midterm review* 18 months after the first disbursement, to measure: (i) the performance of the executing agencies; (ii) the number of small-scale beekeepers served by the project and how they have benefited, as well as the extent to which project performance targets

have been met; and (iii) the performance and outcomes of interagency coordination, which is a critical link in the project's structure. The report on the midterm review will make recommendations on corrective action to be taken by Swisscontact and/or BANHCAFÉ on project activities. The Bank will review the report's findings and recommendations. In the event of material shortfalls in project execution, the Bank will take such steps as it may deem appropriate, including suspension of disbursements, if necessary.

The Bank, through its Country Office in Honduras, will conduct a *final evaluation* three years after project start, once execution of all technical cooperation funding is complete. The final evaluation will review and document lessons learned from the process managed by Swisscontact, focusing on: (i) outcomes and lessons learned from interagency coordination and joint execution of a shared strategy; (ii) the impact of beekeeping as a diversification option for the coffee sector, including the number of small-scale beekeepers served by the project and how they have benefited; (iii) the marketing plan developed, and new markets identified, under the project; (iv) value added to primary production; (v) the impact of breeding on operations and the handling of Africanized bees; and (vi) economic and financial indicators for institutions and farmers.

**Exceptions to
Bank policy:**

None.