

SOCIAL ENTREPRENEURSHIP PROGRAM

PROJECT SYNTHESIS

1. **Country:** Honduras
2. **Project Number:** HO-S1025
3. **Project Name:** Consolidation of Diversified Production of Small Producers in Northwestern Honduras
4. **Executing Agency:** Cooperativa Agrícola Cafetalera San Antonio Limitada [San Antonio Agricultural Coffee Cooperative Ltd.] (COAGRICAL)
5. **IDB Unit:** Multilateral Investment Fund (MIF)
6. **Financing Amount and Source:**

	<u>IDB</u>	<u>Local</u>	<u>Total</u>
Reimbursable financing:	US\$1,000,000	US\$260,000	US\$1,260,000
Technical Cooperation:	US\$250,000	US\$110,000	US\$360,000
Total:	US\$1,250,000	US\$370,000	US\$1,620,000

7. **Goal and Purpose:**

The project's expected impact is to help increase the incomes of small producers in northwestern Honduras through production diversification. The project outcome is consolidation of productive and commercial development of allspice and cocoa among the producers who are members of COAGRICAL, through access to credit and agricultural and processing best practices.

8. **Description:**

Two components will be financed to achieve the objectives: reimbursable financing in the amount of US\$1,260,000 (IDB: US\$1,000,000 and COAGRICAL: US\$260,000) and nonreimbursable technical-cooperation funding in the amount of US\$360,000 (IDB: US\$250,000 and COAGRICAL: US\$110,000). COAGRICAL will be the borrower and executing agency for the nonreimbursable technical-cooperation component.

- ***Reimbursable financing component***

The reimbursable financing component would be used to finance improvements in the cooperative's production infrastructure for bulking and processing of cocoa and allspice as well as resources for its loan portfolio for the same items. In terms of infrastructure, an estimated total of US\$390,000 in Bank funds and US\$80,000 in counterpart funds will be allocated for investments in three new bulking centers for allspice and cocoa pulp in the communities of Omoa, San Antonio de Cortés, and Yojoa, work to complete the cocoa fermentation and solar drying center at COAGRICAL's headquarters, a mechanized cocoa drying center, a cocoa tasting and quality control lab, and a truck for

collecting the products. As for the portfolio, a total of US\$610,000 in Bank funds and US\$180,000 in counterpart funds are expected to be used so that at least 500 COAGRICAL members (with an average of 2 manzanas planted) can access long-term loans for the planting and cultivation of cocoa (US\$470,000) and allspice (US\$170,000) and short-term loans for productive inputs for the established cocoa and allspice plantations to be delivered as in-kind credit to producers (US\$150,000). This combination of increased loan portfolio resources and production infrastructure improvements will allow COAGRICAL to increase its ability to bulk and process cocoa and allspice at the same pace as the expected increase in production volumes of its members.

- ***Non-reimbursable Technical Cooperation component***

Through the **technical cooperation component**, COAGRICAL will carry out various activities to strengthen its credit area and its bulking, traceability, and manufacturing system, and to provide technical assistance for strengthening in production diversification and processing. The technical cooperation plan of operations, in the project's technical files, describes this support in greater detail for the technical cooperation component, which is structured under the following subcomponents.

Subcomponent I: Internal strengthening of credit management and the bulking, traceability, manufacturing, and marketing system of COAGRICAL. This subcomponent will seek to strengthen the COAGRICAL teams' internal capacities in the areas of post-harvest, processing, and marketing of allspice and cocoa, the credit area in order to institutionalize the processes, outputs, and policies for proper comprehensive management or credit risks in COAGRICAL, and improvement of the credit information system. The activities will include: (a) preparing a diagnostic assessment of the credit area and an action plan for improving policies and procedures in credit management and portfolio risk management; (b) strengthening the credit area with a new collections officer; (c) providing training in cocoa tasting for the new laboratory; (d) participating in internships in another cocoa cooperative to learn about better bulking and traceability methods; (e) strengthening the new information and accounting system to include traceability modules for allspice and cocoa and credit management; (f) participating in international trade fairs promoting cocoa and allspice and developing promotional materials for those events; and (g) preparing a case study on production diversification.

Subcomponent II: Technical assistance program for strengthening productive diversification and processing. Support will be provided to extend the cooperative's technical assistance during the processes of planting, production, harvest, and post-harvest of cocoa and allspice, targeting male and female COAGRICAL members and contributing to the technological and methodological transfer for its implementation. It also considers supporting a group of women artisanal chocolate makers in the community with which the cooperative has been working, and which it hopes can take part in the creation of samples of chocolate and derivatives to promote the quality of the cocoa from northwestern Honduras. The activities include: (a) providing technical assistance and improved equipment to strengthen the company of women artisanal chocolate makers; (b) hiring three new specialists to provide technical assistance in the field on subjects related to cocoa and allspice production and bulking, with their respective equipment; (c) conducting "field schools" on the subjects of cocoa and

allspice production and post-harvest handling; and (d) implementing demonstration cocoa and allspice plots.

Subcomponent III: Coordination and supervision. This subcomponent aims to establish a multidisciplinary team to coordinate, supervise, monitor, prepare technical financial accountability reports, and make joint decisions, to facilitate the timely flow of information and achievement of the project's outcomes and outputs. This component will also finance a series of activities related to project coordination and monitoring, including project evaluations and audits. In addition to project coordination and supervision, activities will include: (a) creating the project sheet; and (b) preparing the baseline and monitoring the project's indicators.

9. Beneficiaries:

The project's direct beneficiaries will be the families of about 800 small producers of cocoa and allspice in the departments of Copán, Santa Bárbara, Cortés, and Yoro. It will support the established producers and will seek to incorporate additional beneficiaries who do not yet have the support of an institution that can strengthen their productive, commercial, and commodity processing capacities. They are producers with farms located below 1,000 meters above sea level that will gradually diversify their crops to include cocoa and allspice, and eliminate coffee when they are unable to achieve optimal productivity or quality. At least 20% of the beneficiary producers will be women. According to CATIE, the Honduran small producer's family includes an average of four people. The average age of heads of household is 48. The producers have limited schooling as only 47% are believed to have achieved some level of primary education. Considering the data from CATIE, a cocoa producer (with an average of 1.5 hectares) is estimated to earn a net annual income of US\$1,200 on his or her cocoa crop.

10. Expected results and benefits:

The direct beneficiaries of the Bank's resources will be approximately 800 small-scale low-income producers who are COAGRICSA members and who will have access to: (i) long-term credit at very reasonable rates to plant and grow cocoa and allspice in order to diversify their crops and increase their incomes, and short-term credit for inputs and the maintenance of diversified farms; (ii) specialized technical assistance and training in the comprehensive management of cocoa and allspice; (iii) secure markets for all the production from these crops; and (iv) a more efficient and consolidated credit area within their cooperative to address their credit needs. Expected quantitative outcomes and impacts include: (i) clients who receive credit and technical assistance for diversification will increase their net income from cocoa and allspice by 15% (36 months into the project); (ii) at least 500 additional hectares of cocoa and 400 additional hectares of allspice will be in production 36 months into the project; (iii) the company of women artisanal chocolate makers will be operating with at least six repeat clients nationally and sufficient income to cover operating costs; and (iv) the total value of the project's active loan portfolio for diversification will amount to US\$715,000.