

**Danish International Development Assistance
Danida**

**Danish Ministry of Foreign Affairs
Technical Advisory Services**

**Regional Environment Programme for Central America
Programa Regional de Medio Ambiente en Centroamérica
PREMACA**

**Revisión Anual 2006 del
Programa Regional De Medio Ambiente En Centro América
PREMACA**

*Assessment of Sub-Component 4.b: Support for eco-enterprises,
sustainable management of natural resources and poverty reduction
in Honduras*

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Abbreviations

ARM	Regional Monitoring Advisory Unit (for PREMACA)
AWPB	Annual Work Plan and Budget
BDS	Business Development Services
CABEI	Central American Bank for Economic Integration
CNC	National Commission of Competitiveness
Danida	Danish International Development Assistance
DEM	Decentralised Environmental Management
EEF	Eco Enterprise Fund
FIDE	Foundation for Investment and Export Development
FPX	Federation of Agro Exporters of Honduras
FUNDER	Foundation for Rural Enterprise Development
GoH	Government of Honduras
IAEE	International Advisor on Eco Enterprises
ICT	Information and Communication Technology
IDB	Interamerican Development Bank
MFI	Microfinance Institution
MSME	Micro, Small and Medium Enterprises
NGO	Non Government Organisation
PNC	National Programme on Competitiveness
PREMACA	Regional Environment Programme of Central America
RDE	Royal Danish Embassy (in Managua)
RNR	Renewable Natural Resources
RT	Reformulation Team
SAG	Secretariat (ministry) of Agriculture and Livestock
SERNA	Secretariat (ministry) of Natural Resources and Environment
SETCO	Technical Secretariat (ministry) for International Cooperation
SIC	Secretariat (ministry) of Industry and Trade
SME	Small and Medium Enterprise
TAS	Technical Advisory Services of the Danish Ministry of Foreign Affairs

Exchange rate: USD 1.00 = DKK 6.00

EXECUTIVE SUMMARY

Based on the appraisal report of 2005, on the assessment of a proposal presented to the team, as well as on discussions with stakeholders in Honduras, the team finds that support to “Eco-empresas” in Honduras is highly relevant to the context of Honduras. The basic idea of PREMACA’s component 4 is to improve the environment using the demand for organic products or products produced in processes that are environmentally sustainable as “pull factor”. The team recommends a modification of the design in order to improve the prospects of efficiency and effectiveness. The modified design is based on the assessment presented in this report and takes into account the views and comments presented by concerned government institutions and other stakeholders. As part of the 2006 annual review mission, a rough outline of the recommended revision was presented to representatives of the Government of Honduras and to members of the regional steering committee of PREMACA, who welcomed the recommendations. The main features of the recommended modification include:

- Introduction of two executing agencies: (i) FIDE with responsibility for development of two clusters; and (ii) FUNDER with responsibility for developing value chains with participation of poor rural producers, indigenous peoples, and women.
- FIDE and FUNDER will receive a pre-allocated technical assistance budget while an unallocated budget is reserved for later allocation to FIDE and/or FUNDER according to performance.
- FIDE and FUNDER will receive an administrative overhead of 15% of their technical assistance budget for administration and operational expenses.
- A third party is introduced to monitor and evaluate, analyse experiences and produce lessons learnt.
- A minor budget for financing specific capacity development support to FIDE and FUNDER according to demand and need is introduced.

1. INTRODUCTION

1. When the Regional Environment Programme for Central America (PREMACA) was appraised in June-July 2005, the proposal on support for eco-enterprises in Honduras, i.e. sub-component 4.b, had not yet been formulated. The Appraisal 2005 therefore recommended that “Component 4 b) should be prepared for appraisal at the first Joint Review of the Program in October 2006.” The Appraisal Report also recommended that a specialist in eco enterprises be contracted for two years, starting

PREMACA - Budget for Danida's Contribution 2006-2010

	Component/Sub-component	Executing Agency	DKK million
1	Institutional Support to the Central American Environment and Development Commission (CCAD)	CCAD	15
2	Support to Environmental Research and Advocacy Organisations (two sub-components)	IUCN	51
3	Support to Decentralised Environmental Management (DEM) in Guatemala and Honduras		124
3.a	DEM in Guatemala	Municipalities	50
3.a/ UNDP	UNDP Programme for DEM and Reconstruction in San Marcos, Guatemala	UNDP	12
3.b	DEM in Honduras	Municipalities	62
4	Support for Eco Enterprises, sustainable NR management, and poverty reduction in Guatemala and		40
4.a	Eco Enterprises in Guatemala	Agexport	22
4.b	Eco Enterprises in Honduras	FIDE	18
	Regional Monitoring Advisory Unit; ARM in Guatemala City	ARM	20
TOTAL DANIDA CONTRIBUTION			250

January 2006, and covering sub-components 4.a and 4.b with base in the Regional Monitoring Advisory Unit (ARM) in Guatemala City.

2. Based on meetings with the Honduras Office of the Danish NGO, Nepenthes, the Appraisal Team considered that there could be three options for involving Nepenthes in sub-component 4.b, viz.: (i) as consultants to develop and formulate 4.b; (ii) provide financial support from 4.b to Nepenthes for enhancing Nepenthes' programme in Honduras; and (iii) as an Executing Agency for the sub-component. These options were, however, not fully pursued (see section 3). Instead the International Advisor on Eco Enterprises (IAEE) of ARM was assigned to formulate a draft proposal which was submitted on 5th November 2006 to Danida's Technical Advisory Services (TAS) for appraisal.

3. As part of the annual review of PREMACA, 22 November- 12 December 2006, led by Ms Elsebeth Tarp, DANIDA and Mr. Danielo Saravia, CCAD the proposal for a sub-component 4.b was assessed. During the period 4-8 December 2006, part of the team worked in Honduras and met with relevant agencies of government, civil society and the private sector, including the proposed Executing Agency: Fundación para la Inversión y Desarrollo de Exportaciones (FIDE) which together with other partners provided valuable support to the team. Preliminary findings were presented to key partners and stakeholders in Honduras, and subsequently to a meeting in Managua with members of the Regional Steering Committee of PREMACA.

2. BRIEF SUMMARY OF THE DRAFT PROPOSAL PRESENTED TO THE TEAM

4. Strategy and Objectives: As for sub-component 4.a, the basic strategy of sub-component 4.b is to identify markets, demand, and buyers for products that are produced in an "environmentally friendly way" and then on this basis to assist the producers and suppliers, within the value or supply chain, with satisfying the demand and requirements of the buyers. In this way, it is envisaged that the increasing demand for environmentally friendly products will influence production towards becoming environmentally sustainable, while at the same time being profitable and creating employment and income for the poor. The development objective is defined as,

"Generation of employment and income in poor communities in Honduras, through creation of successful enterprises based on environmental conservation and sustainable management of the natural resources"

5. Targets: The Logical Framework defines the targets/indicators for the three main aspects of the objective:

- a) Poverty reduction: (a.1) more than 5,000 jobs of which more than 40% are for women; and (a.2) family incomes increased by USD 3 million.
- b) Successful enterprises: (b.1) sales increased by USD 6 million; and (b.2) more than USD 300,000 of generated profits are reinvested to strengthen the capitalisation of the enterprises.

- c) Improved environment: (c.1) more than 85% of the production chains apply a cleaner production agenda; (c.2) more than 85% of the products are certified; (c.3) more than 350 managers have received training to raise their environmental awareness; and (c.4) more than 85% of the enterprises have environmental management plans.

6. Nature and Phasing of the Support: The basic nature of the proposed support is technical assistance, i.e. experts and training, but it may also include financing of promotional activities, such as participation in fairs and visits to buyers, as well as some limited support for information and communication technology (ICT). The support is envisaged delivered in two stages. During the first stage, it is expected that the executing agency or another provider of Business Development Services (BDS) will: (i) analyse the potential of different “eco value chains” or clusters¹ (e.g. organic coffee, eco-tourism, certified precious wood), assessing the visions and plans of different players in the chain (ii) identify the buyers and their requirements to product quality, quantity and delivery; (iii) identify potential producers who have the commitment and potential to meet these requirements; (iv) on basis of demand, assist these producers with developing a business plan, including a plan for technical assistance and investments required to achieve the targets of the plan; and (v) support the producers in negotiating a contract or commitment with the buyers.

7. In the second stage (once there is a commitment from the buyers/market and the producers), *technical assistance* will be provided to support producers and suppliers in the implementation of their business plans. This support is to be financed from an Eco-Enterprise Fund (EEF) and may include: technical advice related to the conversion from a traditional production system to an environmentally friendly production process, certification of the products, product development, design and packaging, and training in management and quality control. In addition it is envisaged that the BDS providers will assist the producers in accessing credit from the financial sector for investments and incremental working capital required to implement the business plans; such assistance may include elaboration of brief feasibility studies. In order to ensure that the beneficiaries are fully committed to and have ownership of the plans, they are required to co-finance the technical assistance from the EEF with counterpart contributions of minimum 50%, either in cash or in kind.

8. Intervention Areas and Results: The sub-component comprises four main intervention areas: (i) establishment of an *Eco Enterprise Fund (EEF)* managed by a Selection Committee and administered by FIDE (the Foundation for Investment and Export Development) according to defined regulations; the functions of FIDE would include assessment of proposals and monitoring and evaluation of their implementation; some 30 to 65 value chains and two to four clusters are expected to be supported; (ii) *Business Development Services* which include funding of the cluster development activities of FIDE as well as preparatory activities for the execution of the EEF financed activities, e.g. market analysis, an electronic platform, and strengthening of local BDS centres; (iii) *learning and good practices* which include an electronic learning platform,

¹ A cluster is a geographical zone where there is a concentration of a certain type of business, including all supporting private and public services and goods. Thus, apart from the main industry there would be a number of supporting value chains. For example, in a dairy cluster the main industry/value chain would comprise dairy farmers – dairy plants and companies – supermarkets and exporters while supporting value chains may comprise industries for supplying inputs to farmers, machinery and services for the dairy plant, packaging materials industries, dairy technology training institutes, transport enterprises etc.

development of networks of stakeholders and mentors, and linkages to regional good practices and relevant policy and thematic forums.

9. The fourth intervention area is titled “*other activities*” and includes administrative support and operations but also a capacity development intervention that proposes to contract the Honduras office of the Dutch NGO, SNV, to provide advisory support for: (i) *FIDE’s management and strategy* which will focus on assisting FIDE with including environment and poverty reduction as pillars in its strategy and operations and to change the perception among government and other stakeholder agencies from considering FIDE as an organisation for “big business” to being an organisation also supporting poverty reduction and micro, small and medium enterprises (MSMEs); (ii) *developing FIDE’s technical capacity* for assessment of BDS and financial services, value chains, and environment and poverty issues: and (iii) *learning and exchange of good practices*.

10. Institutional Arrangements: FIDE is proposed as the executing agency administering the EEF and serving as the secretariat for the sub-component Steering Committee and the Selection Committee for the EEF. In addition, FIDE will manage the execution of cluster plans, and contract services for the implementation of the plans, including the value chains within the clusters. The Steering Committee is proposed chaired by FIDE, which also will serve as secretariat; the Royal Danish Embassy (RDE) in Managua will be a member and ARM will participate as an observer, represented by the IAEE. At least two meetings per year are envisaged. Danida (through ARM in Guatemala) will be represented in the Selection Committee which may have six or more meetings per year, with the option that some may be of a virtual nature (teleconferences).

11. Partners and Target Group: Two categories or types of partners are identified, i.e. “Component Partners” and “Partners of Initiatives”. Component Partners include FIDE and Danida as well as government, private and civil society agencies that have interest in and relevance for the activities. Such may include the Ministries of Environment and Natural Resources, Agriculture and Livestock, and Industry and Trade, environmental NGOs, business and SME organisations, and commercial associations.

12. The “Partners of Initiatives” comprise “Value Chain Partners” and “BDS Partners”. Value chain partners (of which some form the target group) include farmers and other primary producers (natural resource users), artisans, manufacturers, transport enterprises, wholesalers, retailers and exporters, service producers and providers, organisations of farmers and producers, and MSMEs. According to the proposal, potential industries and services, which may qualify for value chain development support, include: certified organic agricultural production, eco/cultural/ethnic tourism, environmental certification services, production of medicinal plants, manufacturing based on certified wood, light industries, alternative renewable energy, waste recycling, and treatment of solid and liquid waste. BDS partners include NGOs, consultants, auditors, certification agencies, universities, banks and microfinance institutions that may assist producers and enterprises with business plans, marketing, financial management, access to credit, certification, the production process including environmental management, quality control etc.

13. **Inputs and Budget:** The total Danida contribution over the 4-year period 2007-2010 is proposed at DKK 18 million (~USD 3 million). The major Danida inputs are: (i) The EEF (DKK 11.9 million); (ii) budget for FIDE for equipment and operations and for contracting a coordinator, three value chain specialists and three administrators (total staff costs to be financed by Danida amount to DKK 3,842,000); and (iii) the contract with SNV (DKK 356,000) for capacity development. In addition, budget is allocated for learning networks, electronic platforms, and promotional activities. The detailed budget of the proposal is presented in Annex 1, together with the comments and questions of the Appraisal. It should be highlighted that this budget includes some outcomes which are expected produced through FIDE's contribution but that the value of this contribution is not estimated. Thus, the actual contribution of FIDE remains unclear.

Component 4.b: Danida Budget	
	DKK 000
Objective 1: Eco-enterprise Fund (EEF: 11.9 mio), staff etc.	14,768
Objective 2: Services to Value Chains	371
Objective 3: Learning and Good Practice (Electronic Platform)	301
Other Costs (Coordinator, SNV, administration, audit etc.)	2,560
TOTAL	18,000

3. ASSESSMENT OF THE PREPARATION PROCESS

14. The preparation of the proposal has taken place in two stages. During the period 6-10 March 2006, a Danish consultant, assisted by a consultant/representative of Nepenthes in Central America, undertook a preliminary mapping of organisations and other actors relevant to sub-component 4.b². This work followed up on the work done for preparation of PREMACA and formulation of Component 4, which, however, for Honduras had not resulted in a proposal for a Sub-component 4.b. In May 2006, the International Advisor on Eco Enterprises (IAEE) was fielded to ARM in Guatemala and after completion of work required to initiate implementation of sub-component 4.a, he prepared, during September-October 2006, the proposal on 4.b. A preliminary draft was presented to partners and stakeholders at a workshop held at the premises of FIDE on 24 October 2006. Based on the comments received, the IAEE, together with RDE, FIDE and SNV, prepared the draft description of the sub-component which was submitted on 5 November 2006 for appraisal.

15. The institutional mapping investigated in some detail four organisations and three international cooperation programmes³, and looked briefly at some potential partner agencies (CATIE, Zamorano, Alianza ECOCAFÉ, AHPROL etc.). The findings on the four candidates for executing agency were summarised as follows:

Criteria	FPX	FIDE	FUNDER	TechnoServe
National/Regional/International	National	National	National but international	International (USA)

² Thomas Nielsen and André Mildam (Nepenthes) for the Royal Danish Embassy: Mapeo preliminar sobre organizaciones y otros actores relacionados con el componente 4 en Honduras, 19 de abril 2006

³ UNDP's Programme of Small Donations (PPD/PNUD); Programme for Biodiversity Markets in Central America (CambIO) funded by GEF and BCIE; Project for Integrated Management of Eco Systems by Communities and Indigenous Peoples, executed by ACICAFOC in coordination with CCAD.

			cooperation	
Activities with Eco Enterprises	Little	Little	Some beneficiary SMEs are “eco”	None (apparently)
Poverty Reduction income and employment generation	Indirect (not the main focus)	Indirect (not the main focus)	Main objective	Main objective
Market search and linkages Exports	Yes	Yes	Some	Yes
Work with SMEs	Some, but not main focus	Some, but not main focus	Yes	Yes
Preliminary conclusion: Is it relevant to consider the organisation as candidate?	Yes	Yes	Yes	Yes

The mapping is not conclusive with respect to whom to select as executing agency. Further studies were recommended. Yet, the text provides indirect suggestions (see below) that FUNDER (Foundation for Rural Enterprise Development) might be the favoured candidate, and it remains unclear why the subsequent formulation only pursued “the FIDE track”.

16. On FPX (Federación de agroexportadores de Honduras), the mapping study states “FPX seems to be a relevant organisation for the component although one needs to analyse in more depth the real commitment and capacity of FPX to promote eco enterprises” and “FPX is an institution much smaller and weaker than AGEXPRONT” (the executing agency in Guatemala). On FIDE, it is stated that “the organisation appears to be relevant to the component”, and that “interviewed persons recognised the professionalism and administrative capacity of FIDE but that they found that FIDE was an organisation representing the interests of big enterprises, without a clear poverty reduction strategy”. It is recommended to further study FIDE, including its relationship with the new government, and obtains the views of international organisations working with FIDE. On FUNDER, the study states that FUNDER’s experience appears to be highly relevant to the component, especially considering that FUNDER provides both technical assistance (BDS) and financial services to poor rural groups. The only reservation is that “its experience in commercialisation is primarily related to the national market while FUNDER has less experience in the international market.” No visit was made to TechnoServe but the organisation was considered relevant as a strategic partner.

17. Given that the institutional mapping was preliminary (done within one week of field work), and therefore non-conclusive, the team finds that the period (2 months) and the input (one adviser) for the formulation process was inadequate. Though the draft is comprehensive (140 pages including annexes) and efforts were made to consult relevant stakeholders, there has been insufficient time for partners and stakeholders to review this voluminous draft and provide their written comments, ensuring their full support for the draft before it was presented for appraisal. Perhaps as consequence of this, the Secretariat (Ministry) of Natural Resources and Environment (SERNA) criticised (during the mission and in writing) the process of selecting FIDE as executing agency for being based on non-transparent subjective criteria, and not based on objective criteria and a competitive process. Furthermore, SERNA did not consider that FIDE had any past experience of working with the poor. The ministries of agriculture and livestock (SAG), and Industry and Trade (SIC) expressed (verbally) a similar concern.

18. The inadequate time for the consultation process is due to unforeseen developments in the circumstances. While it was agreed to appraise sub-component 4.b during the first annual review, it was at the same time assumed that the IAEE would be in position by January 2006. However, this was only achieved in May 2006, which reduced the time available for the formulation process, if the proposal were to be appraised during the annual review. Two or three more months would have provided for an adequate process but this might have delayed the approval process by some six months and thus reduced the implementation period. And as seen in section 5, the length of the implementation period is crucial for the cost-effectiveness and feasibility of this sub-component.

4. ALIGNMENT TO THE NATIONAL AND SECTOR CONTEXT

19. Overall, the proposal is well aligned and relevant to the national context. The basic idea of Component 4 is to improve the environment using (as “pull factor”) the demand for organic products or products produced in processes that are environmentally sustainable. This is also relevant in Honduras, where such demand exists and is increasing. The demand for organic food products and environmentally certified forest products mostly originates from the USA and EU. However, domestically there is an increasing demand (requirement) from the big international supermarket chains (e.g. Walmart) for “safe products”, e.g. food products that, though not organic, are produced under “good agricultural practices”, without the use of prohibited pesticides. Chapter 17 of the Free Trade Agreement with the USA is likely to enforce the trend as it requires that the traded products comply with national environmental regulations and international agreements. The recently initiated trade negotiations between the EU and Central America also include an environmental agenda.

20. While the demand for environmentally certified forest products largely is based on the “idealistic consumer”, the demand for certain agricultural products, produced under an environmentally sustainable regime, is not only based on consumers’ wish to contribute to improving the environment. Markets for coffee, coco and certain horticultural crops are developing characteristics similar to those of the wine sector where high-income consumers pay high prices for quality and taste and where the product’s origin and the name of the producer matter for the price level. This offers a possibility for smaller producers to multiply their prices and income. Exploitation of these “niche markets” is rapidly increasing in Honduras as it is in Central America. Also within tourism, there is an expanding niche for eco/biodiversity/cultural tourism, which Honduras has not yet exploited to the same extent as for example Costa Rica.

21. The proposal does not limit the support to production based on the renewable natural resource (RNR) sectors but opens for the possibility of supporting light industries and the concept of “cleaner technology”. The basic idea of this concept is to introduce less polluting processes and reduce the use of raw materials and energy per unit of output, thereby increasing profits. However, products produced with cleaner technology do usually not obtain any significant price premium or other advantages in the markets, and therefore this option appears to be outside the basic strategy of the sub-component. Furthermore, with the limited time and resources available for this sub-component, it would be prudent to exclude this option as it will require mobilisation of substantial and highly specialised technical services as well as major investments in order to have an impact. However, within the RNR sectors there are options for reducing pollution. For example, disposal of coffee bean pulp into rivers and streams is a major source of pollution, and there are options for converting the pulp into valuable organic manure.

22. A major concern of the team was that the support is limited to technical assistance while investments and incremental working capital are supposed financed from other sources. However, the team was able to confirm that such sources do exist, notably the CABEI/GEF CambIO project which starts early 2007. This regional project will provide lending capital to financial institutions (the initial fund is USD 20 million) for on-lending to biodiversity-friendly activities. In addition, it will provide technical assistance to develop the capacity of financial institutions to deal with this new market segment. However, no technical assistance is provided to producers' groups and enterprises, and therefore, CABEI considers that Component 4 will provide a highly valuable complement.

23. Options for synergy and complementarity also exist with the World Bank's ongoing "Forest and Rural Productivity Project" and its new "Rural Productivity Project" currently under preparation. Other potential complementing partners/programmes include the National Local Development Programme (PRONADEL, IFAD and Ministry of Agriculture and Livestock (SAG)), the Dutch CBI (with support to FPX and SAG) for export to Europe, the Interamerican Development Bank (IDB) supporting certification and the National Programme of Competitiveness (PNC, for which FIDE is serving as the secretariat), and various projects and programmes of a number of NGOs and bilateral agencies.

5. ASSESSMENT

5.1 Objectives and Strategies

24. Objectives: The definition of the objective is ambitious as it contains three objectives in one, i.e. poverty reduction, enterprise development, and environmental conservation and sustainability. During implementation, there may in some cases be a need for considering trade offs between the three. Furthermore, it should be considered to exclude the concept "environmental conservation" since some may consider this as hindering a more dynamic but sustainable management and use of natural resources. One may also discuss whether support should only be provided for the "ideal state of environmental management" or whether one may accept to support improvements in the environmental management system though such improvements only constitute a part of the road towards the ideal state. For example, could the sub-component support the process of converting a vegetable production based on intensive use of pesticides (of which some are forbidden) to a production system applying integrated pest management and "good agricultural practices"? Thus, a clarification of the concept "eco" is required. Finally, it is suggested to replace "creation of successful enterprises" with "development of successful enterprises" as "creation" gives the impression that the sub-component will support the establishment of new enterprises, which in fact it will not. Rather it will work with groups, associations and SMEs that are already established and have a potential for commercial expansion.

25. Targets/Indicators: It is recommended to revisit the targets which appear extremely ambitious considering the limited implementation period and that only technical assistance is offered. In particular, it may be considered to revise "creation of 5,000 jobs" to (some) "2,000 jobs strengthened and/or created" since the main impact of support to NRM and SME development often is to raise productivity and incomes of existing employment (or under-

employment), thus strengthening the jobs. Finally, it is suggested to test if reliable information for monitoring the indicators can be obtained at reasonable costs, and if not so, if “cheaper proxy indicators” can be identified. Indicators such as “family income” and “re-investment of generated profits” could face problems.

26. Strategies and Approaches: The team confirms the potential for using, as the starting point, the demand for environmentally friendly products to expand profits, employment and incomes generated by eco enterprises. However, the strategy to achieve this by only offering technical assistance, while assuming that capital requirements will be met from other sources, does entail a major risk. Conversion and expansion plans do require capital, and most international experiences suggest that farmers and MSMEs are unlikely to demand and co-finance advisory services unless these services are linked to credit or facilitates the access to credit. To reduce this risk it is therefore crucial that major efforts are invested in linking up with financial institutions, including microfinance institutions (MFIs). During the first months of implementation, it is suggested to scan the financial sector with the view to finding institutional partners. A few banks could be candidates as well as some of MFIs⁴.

27. Supply and Demand Issues: Demand-driven technical assistance schemes entail the risk that the service providers pro-actively define and generate the demand of the beneficiaries, and in this case, this type of risk seems high as it generally will be the service providers who spot a market opportunity and convince the producers and enterprises to pursue it. It is therefore appropriate that the proposal introduces co-financing or counterpart contributions by the beneficiaries to ensure that the beneficiaries really want the advisory services that they are being offered. However, the counterpart contribution does seem high (50%) though some of it may be paid in kind. As experience is gained more work may be needed to arrive at an appropriate definition of the counterpart contribution, which perhaps needs to be differentiated according to the capacity to pay. Another challenge in this type schemes is to ensure the quality of the supply. Quality control mechanisms can be costly and may also entail a risk of corrupt practices (a need for service providers to pay bribes for being certified and obtaining contracts).

28. Alignment to Danish Development Aid Policies: The strategy of the sub-component is well aligned to Danish aid policies on poverty reduction, the environment and private sector development. By excluding credit from the support menu, one avoids the risk of directed and subsidised credit that may distort financial sector markets; however, the absence of credit in the tool box does create other challenges.

5.2 Institutional and Management Issues

29. Executing Agency: FIDE was established in 1984 as non-profit foundation with financing from USAID. During the 1980s and 1990s FIDE played a major role in attracting large foreign direct investments, mainly in contract production of garments (maquila), but in recent years more emphasis has been given to promotion of exports and development of conglomerates (clusters) that also involve small and medium enterprises. FIDE is serving as secretariat for the National Programme of Competitiveness that is financially supported by the World Bank and the IDB. Though FIDE recently has given increased attention to small and medium enterprises,

⁴ Honduras has several very large MFIs, for example, Organización de Desarrollo Empresarial Feminino (ODEF) which is among the biggest ones and which supports the development of enterprises owned by women

government and civil society/private institutions in Honduras perceive FIDE as an organisation for big business, mainly urban industries, and not as an organisation for development of MSMEs, poor rural communities, and environmental issues (for further details, please refer to Annex 2).

30. In the proposal, FIDE is envisaged to play two roles, one as an executing agency responsible for development of two or more clusters where FIDE does have experience, and another as manager of the Eco Enterprise Fund (EEF) where producers, service providers and other development organisations may apply for support for development of eco enterprises based on the value chain approach. While FIDE does have experience in fund management, its experience with environmental interventions, the rural poor, rural producer groups and small enterprises is limited. Secondly, though a non-profit organisation, FIDE has many similarities with a consultancy firm. It is not a membership organisation and obtains all its operational income from the funds and projects it manages. There could therefore be a case for criticising a direct award of a fund management contract to FIDE, justifying arguments for a tendering process. Anyway, FIDE's management and administration of the funds is proposed done through a contracted team (1 coordinator, 3 value chain specialists and 3 admin staff) financed by the sub-component. Tendering would delay implementation by close to one year and thus reduce the implementation period with the result that the cost of managing/administering the delivery of services to the target group would surpass the value of services delivered which would not be possible to justify.

31. SNV and Capacity Development: The proposed pre-allocation of a budget for SNV to provide capacity development support to FIDE raises a number of issues. SNV is a Dutch NGO largely funded by the Dutch government but it has recently been decided that public funding of its activities in Latin America will be significantly reduced. To address this situation SNV/Honduras is seeking financing of its MSME and BDS activities from other sources, including charging for its services which gradually will make SNV/Honduras resemble a consultancy firm. It can at this stage not be estimated exactly what services FIDE will require. The need for capacity and organisational development is determined by the strategy and the current capacity of the organisation. FIDE does at present not have a clear organisational strategy but should be able to develop such on its own if it wanted to. And finally, FIDE's capacity is fluctuating according to the projects it is assigned or contracted to manage. During 2007-2008, major funding from IDB and the World Bank will come to an end, and if not replaced, this could result in contraction of FIDE's capacity.

32. Partners: While the proposal provides an elaborate list of potential partners, insufficient emphasis is given to partners in the financial sector. Strong partnerships with financial sector institutions will be crucial to ensuring access to the credit required to implement the value chain plans and promote the demand for technical assistance services.

33. Steering Committee: The general direction, including approval of work plans and budgets, will be done by a sub-component steering committee where the RDE will be a member. It was suggested to the team that the National Commission on Competitiveness (CNC) could serve as steering committee. While the team finds that the sub-component should inform and coordinate its work with the CNC, it considers that a specific sub-component steering is required to ensure sufficient attention to the details of this relatively small intervention and to obtain the views of representatives of environmental advocacy organisations, MSMEs and poor rural producers.

34. Selection Committee: It is proposed that the RDE as well as Danida, i.e. ARM, will be permanent members of the Selection Committee for the EEF. Considering that the Committee will have six or more meetings per year, it is doubtful if RDE will be able to fully participate. Furthermore, as the Committee will deal with detailed implementation issues it may be questioned whether RDE should be a member; it may be sufficient to have ARM representing Danida. Finally, it may be questioned whether the Committee, as proposed, should approve the initial selection of groups and value chains or whether this could be done administratively, leaving only the approval of support to the Committee.

35. Procurement: As indicated in paragraph 27, a competitive technical assistance fund does entail a number of risks related to procurement and further work is required to detail guidelines that may mitigate such risks.

36. Monitoring System: It is recommended to review/revise the indicators to ensure that reliable information (required to monitor the indicators) can be obtained at reasonable costs. Furthermore, as the sub-component in reality will fund a number of micro-projects, it is suggested that each micro-project is requested to define its indicators and systems for reporting on these indicators (within a general guiding frame defined by the sub-component). Finally, it is suggested that the responsibility for the overall monitoring is left to a third party, e.g. SNV, and includes not only reporting on quantitative and qualitative data, but also analysis of why some interventions succeed while others fail. Essentially, the sub-component is a pilot project, and lessons learnt constitute one of the most important outputs.

5.3 Efficiency and Effectiveness

37. Efficiency (achievement of outputs within reasonable costs and time) depends on the existence of organisations that already have the apparatus and capacity to deliver, at low cost, quality services of the type financed by the sub-component. The limited implementation period provides no time for developing such capacity from the scratch. FIDE has a recognised experience and capacity for identifying international market opportunities and for cluster and tourism development. However, other organisations, notably FUNDER, are better specialised in services aimed at developing the productive, commercial and organisational capacity of poor rural producers and MSMEs.

38. Effectiveness (achievement of objectives and targets) depends on the potential for eco-chain development and the demand of potential actors but also on the collaboration between the sub-component and providers of financial services as technical assistance alone is insufficient for achieving the transformation to environmentally sustainable production systems that generates more sales, family income and employment. The team finds that the potential and the demand exist but that major efforts need to be invested in developing the collaboration with financial institutions. Finally, the proposed institutional set-up, with FIDE as sole executing agency, does entail a risk that the objectives related to rural poverty reduction may not be fully achieved.

5.4 Feasibility, Sustainability and Time Issues

39. Feasibility: The team finds it highly likely that there is sufficient demand and high prices for environmentally friendly products in certain niche areas to stimulate a transformation of the

production towards a new situation that provides higher incomes, more employment and a better environment. However, development of strong linkages to financial sector institutions is crucial to ensuring the demand for and the success of the technical assistance being offered by the sub-component.

40. Sustainability: Successful value chains will obviously be sustained and it is likely that it will be possible to consolidate some value chains before 2010. However, for many of the initiatives it should be expected that support would be required beyond the completion of PREMACA. This is especially so for the support to clusters. Development of strong clusters, involving private and public efforts to develop the lead-industry/activity as well as for several supporting branches and sub-sectors, is not done in the short- or medium-term. The IT centres of Silicon Valley and Bangalore, the fashion centres of Milan and Paris, the diamond cutting centres and “flower clusters” of Holland etc were not developed overnight.

41. Time Issues: PREMACA’s completion date is 31st December 2010, and though one may speculate that there may be an extension or a second phase, the assessment and the planning need to be based on the current completion date. As a result of the delay in processing sub-component 4.b, less than four years are now available for implementation. Considering that approval of support from the EEF would have to stop by mid 2010 and that it takes time to mobilise demand and process the applications, this leaves less than three years for the active operation of the fund which raises the question whether it is worth while to establish the complex management and administrative apparatus for the delivery of the EEF, including a Selection Committee. Furthermore, unlike the situation in Guatemala, it does not appear that there would be a large number of organisations in Honduras competing for EEF support.

5.5 Distorting Effects

42. Though the sub-component will provide partly free (subsidised) business development and other technical assistance services, it is fair to argue that this is already the way that this market functions. Most producers and MSMEs in Honduras are currently not used to paying (in cash) for the full cost of the technical assistance services they receive. In fact, the requirement for a 50% counterpart contribution (though some may be in kind) is higher than what many other projects and agencies demand. The option of financing (with matching grants) investments in Information and Communication Technology (ICT), as done in sub-component 4.a in Guatemala, could have a distorting effect as ICT normally is an item that producers and MSMEs finance from their own funds and/or credit.

5.6 Assumptions, Risks and Pre-conditions

43. The proposal presents an elaborate analysis of risks and assumptions as well as a mitigation strategy. However, more attention should be given to the link to financial institutions for the financing of investments and incremental working capital required to implement the value chain plans.

5.7 Overall Conclusion and Recommendation

44. The proposed support is highly relevant to the context of Honduras and has good prospects of feasibility. The team therefore recommends the approval of PREMACA support to

subcomponent 4.b, however subject to a modification of the design with the view to improve the prospects of efficiency and effectiveness. An outline of the modified design is provided in the following.

6 OUTLINE OF RECOMMENDED MODIFICATIONS TO THE DESIGN

6.1 Overall Structure and Budget

45. A rough outline of the budget and an illustration of the recommended design structure are presented in Annexes 3 and 4. The proposed modification is based on the above assessment and takes into account the views and comments presented by concerned government institutions and other stakeholders. During the annual review mission a rough outline of the recommended revision was presented to representatives of the Government of Honduras and to members of the regional steering committee of PREMACA, who welcomed the recommendation to introduce FUNDER as a second executing agency. The main features of the recommended modification are:

1. The EEF is abolished and instead two executing agencies are introduced: (i) FIDE with responsibility for development of two clusters; and (ii) FUNDER with responsibility for developing value chains with participation of poor rural producers, indigenous peoples, and women.
2. FIDE and FUNDER receive a pre-allocated technical assistance budget while an unallocated budget is reserved for later allocation to FIDE and/or FUNDER according to their performance.
3. FIDE and FUNDER receive an administrative overhead of 15% of their technical assistance budget for administration and operational expenses.
4. A third party is introduced to monitor and evaluate, analyse experiences and produce lessons learnt. This could be SNV and/or a national consultancy firms.
5. A minor budget for financing specific capacity development support to FIDE and FUNDER according to demand and need is introduced. The provider of these services could be SNV or other organisations specialised in the service that is being demanded.

46. FIDE's role is thus reduced to development of two clusters, where FIDE does have experience and expertise. For development and implementation of the cluster plans, FIDE will contract three long-term technical specialists as well as short-term BDS providers. The budget for the latter has been developed based on number of person-months (at USD 2,000 per p/m) that FIDE estimates to contract.

47. The role of the "third party" is to assist CCAD and ARM with monitoring activities in the field, to maintain a data base of monitoring data, and to analyse why some interventions and approaches succeed while others are less successful, thus providing information that is useful and suitable for sharing with others in Honduras and in the region. The input for this is budgeted at

three full person-months per year plus related travel and other operational expenses. During the work on revising the proposal, it is suggested that the reformulation team meets with SNV to explore if SNV could assume this role. Additionally, SNV may, on demand, provide capacity development services to FIDE and FUNDER but some of these services may also be provided by other specialised service providers.

48. Why not a competitive fund (EEF)? While a competitive technical assistance fund, such as the EEF, has many merits, it does require time to bring into full operation and it is management intensive. Secondly, a direct award of a fund-management-contract to FIDE may meet procedural obstacles in the Danish system, and government institutions in Honduras have expressed their concerns about selecting FIDE as fund manager. Finally, it is the assessment of the team that Honduras does not have a large number of organisations specialised in the field of work financed by 4.b and therefore that the competition that the fund will promote would anyway be modest.

49. Even though the EEF is recommended abolished and “replaced” by FUNDER as a second executing agency, many organisations will have the possibility of contributing to the implementation. It is expected that FIDE will make extensive use of other institutions to provide specialised technical assistance services for the clusters. FUNDER will partly use the allocated technical assistance budget to assign some its staff to work on eco-value-chains but FUNDER will also contract specialists and other institutions to assist with the implementation

50. Why FUNDER as the second executing agency? In view of the above, the team undertook a rapid survey to find an organisation which had the capacity and experience to “quick-start” the activities and which is specialised in rural enterprise development with focus on the rural poor, women and indigenous peoples. The non-profit organisation, FUNDER (Foundation for Rural Enterprise Development) met these requirements, and stands out among others as the main organisation in Honduras in this field. FUNDER has 46 employees of whom 15 are professionals specialised in assisting poor rural producers and rural micro and small enterprises with business development services (BDS) including finding buyers for their products. Some of this support is already being provided to eco-enterprises and environmentally friendly value chains. In addition, FUNDER has a financial services division that assists rural groups (with women accounting for 50%) with establishment and operation of savings and credit schemes. Finally, FUNDER also invests risk capital in rural enterprises during their development and consolidation phase (please refer to Annex 2 for further details). The team finds that the combination of a strong BDS capacity and financial services provides a valuable basis for supporting the development of “eco-value chains”.

51. Why an unallocated technical assistance reserve? At the design stage, it is difficult to foresee the performance and disbursements of the two executing agencies. One may be a high performer with rapid disbursements while the other may be slow. Pre-allocation of the entire budget could therefore create problems. An unallocated reserve would address such a situation, and the mere existence of the reserve may be motivating factor for both organisations. During the reformulation, the criteria for allocating the reserve need to be outlined.

6.2 Implications for the Institutional Arrangements and Management

52. Implementation Management: The implementation will be managed through annual work plans and budgets (AWPBs or POAs) presented by FIDE and FUNDER to the Steering

Committee for approval as well as through the follow-up based on progress, monitoring and financial reports. The AWPBs will propose the clusters and value chains to be supported, and the activities and the budgets for these activities. The RDE and ARM will be relieved from the heavy workload of participating in micro management and frequent meetings of the Selection Committee.

53. Steering Committee: Though two executing agencies, there should be one common Steering Committee. This would further facilitate cooperation between FIDE and FUNDER which, however, already exists, e.g. FIDE is represented in the governing structure of FUNDER. Options for synergies include that FIDE assists FUNDER with its knowledge of international markets while FUNDER assists FIDE with its knowledge of rural producer groups. It is recommended that neither FIDE nor FUNDER chair the Steering Committee. A “neutral” party should be identified and the options include: SERNA (Ministry of Environment and Natural Resources), SETCO (external cooperation) and the President’s Commissioner for the National Programme on Competitiveness (PNC). ARM would serve as secretariat for the Steering Committee but be assisted by a contracted monitoring agency.

54. Monitoring: Though both FIDE and FUNDER will apply their internal monitoring systems, it is recommended that a third party is contracted to do independent field monitoring under the supervision of CCAD/ARM. The monitoring reports will constitute an important input to the work of the Steering Committee. In addition to data collection and reporting, the monitoring entity should also be requested to do analytical work, with the view to present lessons learnt to the partners in Honduras and in the region.

6.3 Issues for the Reformulation

55. It is recommended to undertake a reformulation exercise by contracting an international and a national consultant, while requesting the IAEE to serve as resource person. The main output of the reformulation exercise will be a component description document to be finally endorsed by the Regional Steering Committee of PREMACA. It should follow the principles of the Aid Management Guidelines of Danida and be a brief management document, which will act as a support document to a more detailed component description, in case the partners will require this. As main annexes, it should include two draft proposals on cooperation agreements between RDE and FIDE and between RDE and FUNDER. The main activities, and issues to be addressed, of the reformulation exercise include:

1. Review/revision of the logical framework, including objectives, targets and indicators
2. Negotiations with FIDE and FUNDER to agree on: (i) frameworks for activities and pre-allocated budgets; (ii) the percentage for administrative overhead; (iii) procedures for use of technical assistance funds, including procurement; (iv) systems for financial and progress reporting; and (v) draft proposals on cooperation agreements with the RDE.
3. Definition of criteria for allocating the unallocated technical assistance reserve
4. Negotiations with a third party, possibly SNV, on the role, activities and budget for the monitoring function

5. Negotiations with government and stakeholders to obtain an agreement on the role, membership and chairpersonship of the steering committee
6. Risk monitoring

7 PROCESS ACTION PLAN

56. The main actions up to the start of implementation are outlined below.

What	Who	When
Contracting of Reformulation Team (RT), including TOR	ARM/RDE	Before 31 Dec 2006
Field work of RT	RT supported by IAEE	12-29 Jan 2007
Presentation of first draft to stakeholders	RT	29 Jan 2007
Final Draft	RT	16 Feb 2007
Review and comments on Final Draft	PREMACA Steering Committee, including RDE and GoH,; FIDE, FUNDER,	19 Feb – 2 March 2007
Final Document	RT	9 March 2007
Approval of sub-component	Regional Steering Committee/PREMACA	March 2007
Approval and signature of Cooperation Agreements RDE-FIDE and RDE-FUNDER	RDE, FIDE, FUNDER	March 2007
Contracting of third party for monitoring	ARM/RDE	April 2007
First Steering Committee with approval of Annual Work Plans and Budgets (2007) for FIDE and FUNDER	Steering Committee 4.b	April 2007
Start of Implementation	FIDE, FUNDER	May 2007

**Annex 1/
Detailed Budget according to Draft Proposal**

Component 4.b Proposed Budget 2007-2010

	DKK '000	USD '000	Comments of the appraisal
Result 1: Implementation of the Eco Enterprise Fund (EEF)			
1.1 The Fund - Disbursements	11,900	1,983	
1.2 Technical Secretariat for Selection Committee=offices and provisions	-	-	why have the budget line when the contribution is not estimated
1.3 Technical assistance=3 value chain specialists	1,871	312	The USD amount is given as 209,000 implying an exchange rate different than USD1=DKK6. Each of the 3 specialists will be employed for a period of 45 months and with the proposed budget this implies a person-month rate of USD 2,311. 42 months would be more realistic considering that it is unlikely that the specialists will be in position before mid 2007.
1.4 Administration= 3 administrators	945	158	Each of the 3 administrators will be employed for a period of 45 months and with the proposed budget this implies a person-month rate of USD 1,111. Two, instead of three, administrators would seem sufficient
1.5 Electronic Platform	24	4	
1.6 Monitoring and Evaluation of initiatives	29	5	Workshops, meetings, field visits. Seems very low?
Sub-total for Result 1	14,769	2,462	
Result 2: Business Development Services for the Chains			
2.1 Portfolio of BDS	-	-	What are the costs/contributions involved? why have the budget line?
2.2 Portfolio of Financial Services	-	-	Supposedly, the contracted staff and BDS will assist with access to financial services. Why have the budget line with zero budget?
2.3 Analysis of sectors and markets= contracts with BDS providers	68	11	Seems very low, it will allow for only some 5 person-months
2.4 Commercial promotion	304	51	This is supposed to cover travel costs of component personnel and "socios" to fairs and markets. Is it not the fund that will cover such costs for the socios?
2.5 Development of an electronic enterprise platform	-	-	It is mentioned that costs are included in other budget lines. Which? And why have the budget line when it is zero? And what is the difference from 1.5?
2.6 Services of local centres	-	-	These are local Business Advisory Centres that are <u>planned</u> to be financed under the Nation Programme for Competitiveness (PNC).
Sub-total for Result 2	372	62	
Result 3: Learning of good practices			
3.1 Electronic Learning Platform	20	3	Seems very low as it is supposed to cover development, training of users and operation of the platform
3.2 Learning networks	49	8	National workshops, fieldvisits etc. Seems low
3.3 Linkage to good regional practices	130	22	Regional travel for workshops, field visits etc. Seems low
3.4 Dissemination Programme	102	17	Materials, public events etc. Supposedly the electronic platforms should be the key?
Sub-total for Result 3	301	50	
4. Other Costs			
4.1 Technical Secretariat for the Steering Committee	18	3	Rooms and provisions. Do we have to pay rent for the meeting room?
4.2 Leadership = 1 coordinator contracted for 45 months	1,026	171	Implies a person-month rate of USD 3,800. Strange to budget the coordinator under other costs.
4.3 Office equipment	162	27	Computers, photocopy machines etc. What can FIDE provide?
4.4 Office services= communication, materials, rent of office, security	608	101	What is the actual office rent?
4.5 Advisory Services= contract with SNV	356	59	The SNV service should be related to a result. The contract should be partly a framework contract.
4.6 Audits	150	25	
4.7 Contingencies (imprevistos)	240	40	
Sub-total 4	2,560	427	
TOTAL FOR COMPONENT	18,002	3,000	

**Annex 2/
Brief Assessment of FIDE and FUNDER**

FIDE – Fundación para la Inversión y Desarrollo de Exportaciones

FIDE is a non-profit organisation established in 1984 with financing from USAID and with the objective to promote investments and exports. FIDE is directed by a board of directors of whom the majority comes from the big enterprises in Honduras. FIDE has emphasised the promotion of foreign direct investments and thus exports. During the 1980s and 1990s, FIDE was instrumental in the development and consolidation of contract production (maquila), focusing on the garment industry. Currently, FIDE continues working with development of contract production but now with focus on industrial parts and equipment as part of a diversification strategy.

In 2003/2004, the government appointed FIDE as Technical Secretariat for Competitiveness. This appointment allowed FIDE to manage the funds of the National Programme for Competitiveness (PNC) financed by the IDB and the World Bank. With these funds, FIDE has been working on improving the competitiveness of Honduras at micro and macro level. At macro level, various national and local policies and laws have been introduced to improve the investment climate and at micro level support has been provided to improve the international competitiveness of enterprises. FIDE has developed a unique experience in the development of conglomerates or clusters working in selected regions with horizontal and vertical chains of enterprises, as a strategy for improving the competitiveness.

FIDE obtains its main income from the initial capital provided by USAID and from managing projects. FIDE is not a membership based organisation and does therefore not receive membership fees, nor does FIDE charge beneficiaries for its services.

Some of the most important observations on FIDE, which emerged during the interviews, were:

1. FIDE is perhaps the best qualified institution for managing the funds of sub-component 4.b given its administrative structure and experience in managing donor and international funds (USAID, World Bank, IDB).
2. However, FIDE is not the best institution for implementation of 4.b since it has no experience in the rural sector, nor with working with the target group of 4.b
3. FIDE is more recognised and appreciated internationally than nationally.
4. Nationally, FIDE has been successful in promoting industrial investments and instrumental in development of contract production/industries (maquila).
5. Due to its past focus, there is a perception in Honduras that FIDE has demonstrated its importance for the development of the private industrial sector represented by the largest entrepreneurs of the country, and not in the development of small and medium enterprises in the rural areas.
6. The approach and methodology for working with medium/big enterprises cannot be applied to small rural enterprises
7. Some of the interviewed found that FIDE fails to share the information it manages and generates with other institutions that have an interest in this information, even though FIDE works with government funds.
8. In the context of the PNC, FIDE has developed a unique and valuable experience in development of conglomerates (clusters) where FIDE has attempted to involve also small enterprises. However, a top-bottom approach has been applied, assisting the bigger enterprises with focus on the market while assuming that smaller enterprises and the poorer social segments would benefit from a trickle down effect.

9. It is the perception that FIDE has good knowledge of markets, based on past studies and work, especially the markets in the USA for “nostalgic products” (i.e. products which once were a traditional part of the diet or consumption of emigrants from Honduras working in the USA).
10. It is by some perceived that FIDE has not fully achieved the results that were expected from the funds that FIDE manages under the PNC.

FUNDER – Fundación para el Desarrollo Empresarial Rural

FUNDER is a non-profit organisation, established in 1994 with funds from the Dutch cooperation and with the objective to develop rural enterprises of the population below the poverty line. FUNDER is directed by a general assembly which has representatives of small rural producers, farmer enterprises of the agrarian reform programme, ethnical minorities, government, and private business. In addition, there is an advisory level comprising (i) a “Users’ Committee” which advises on policies and strategies and follows the implementation and which has direct representatives of users, farmer and branch organisations, and organisations representing indigenous peoples and *garifunas*; (ii) an Advisory and Support Committee which advises on plans and budgets and follows the implementation and which has representatives from the ministries of agriculture and livestock (SAG) and the technical secretariat and international cooperation (SETCO), the National Agrarian Institute (INA), and the Embassy of Holland. Below the advisory level there is a “board of governors” under this, there is the executive level, i.e. the executive director. The advisory committees assist FUNDER with focusing its activities on the target group and with the selection of projects.

FUNDER’s basic strategy is to support rural families with transforming their subsistence systems into competitive rural enterprises integrated in the markets, and to strengthen the family in its economic and social dimensions. It works primarily with agrarian reform communities and indigenous peoples. The support of FUNDER includes assistance to development of group savings and credit schemes (*cajas rurales*), provision of risk capital which FUNDER invests in rural enterprises during their development and consolidation phase, technical assistance on organisational, management and productive aspects, and identification of markets. FUNDER applies a bottom-up approach, but uses the market and the demand as starting point.

Often, FUNDER starts with the identification of the market/buyer/exporter and on this basis work starts on identifying small enterprises within the supply chain that may meet the identified demand. FUNDER has a market investigation unit for this purpose. However, usually FUNDER does not assist with linking the small rural producer directly with an importer in the USA or the EU; rather FUNDER facilitates the link to a domestic exporter who has the cooperation with importers abroad.

One part of FUNDER’s work is to assist small rural groups with the development and consolidation of rural savings and credit schemes. The capital that accumulates within these schemes may be used to support the development of the productive activities thus complementing the technical assistance that FUNDER provides for the organisational and productive development of the rural enterprises, where FUNDER assists the enterprises with meeting the demand and product requirements of the buyers that have been identified.

FUNDER obtains its operational funds from the following sources:

1. An “overhead” received for managing projects financed by international partners
2. Direct grants from the Government of Honduras.
3. Donations from international institutions.
4. Service charges from “sale” of business development services.

Some of the main observations on FUNDER that emerged during the interviews include:

- 1- FUNDER works directly with the target group of sub-component 4.b, i.e. the rural poor
- 2- However, the target group, though represented in the general assembly and the users’ committee, is not represented in the executive management
- 3- The organisations supported by FUNDER have a high participation of women; about half of the members of the rural savings and credit schemes are women who also have a high participation in the processing of agricultural produce.
- 4- FUNDER’s support menu is not limited to BDS but includes financial services as well
- 5- FUNDER has a high degree of collaboration with the government and other institutions, including FIDE.
- 6- FUNDER’s operational costs appears to be much lower compared to those of FIDE
- 7- The approach is bottom-up but with a focus on market and demand
- 8- FUNDER has worked and is working with development and marketing of organic products, for example coffee and fruits.
- 9- FUNDER has launched an initiative to develop eco-tourism in one of the regions that is rich in natural resources and biodiversity, a region hosting one of the most important indigenous groups: the Lenca tribe.
- 10- FUNDER has experience in managing funds from the USAID, IDB, Japan and the European Community.
- 11- As FIDE, FUNDER is dependent on external funds for its operation.

**Annex 3/
Budget Outline for
Recommended Design Modification**

Modified Design of Sub-component 4.b - Rough Outline of Budget

	2007	2008	2009	2010	Total	Total
	USD	USD	USD	USD	USD	DKK
1 FIDE						
1.1 Cluster Development - Technical Assistance						
1.1.1 Technical Assistance Fund for cluster development	46,000	248,000	200,000	100,000	594,000	3,564,000
1.2.1 Main Coordinator	30,400	45,600	45,600	45,600	167,200	1,003,200
1.1.3 Two Cluster Managers (field)	24,000	48,000	48,000	48,000	168,000	1,008,000
Sub-total 1.1: Cluster Development	100,400	341,600	293,600	193,600	929,200	5,575,200
1.2 Administrative Overhead (15% of sub-total 1.1)	15,060	51,240	44,040	29,040	139,380	836,280
TOTAL FIDE	115,460	392,840	337,640	222,640	1,068,580	6,411,480
2. FUNDER						
2.1 Technical Assistance for Value Chain Development	100,000	300,000	333,000	200,000	933,000	5,598,000
2.2 Administrative Overhead: 15% of 2.1	15,000	45,000	49,950	30,000	139,950	839,700
TOTAL FUNDER	115,000	345,000	382,950	230,000	1,072,950	6,437,700
3. Monitoring, Evaluation, Lessons Learned, CD					-	-
3.1 M&E Consultant (national + including expenses)	15,000	15,000	15,000	15,000	60,000	360,000
3.2 Capacity Development Support on Demand	15,000	15,000	15,000		45,000	270,000
3.2 Workshops		3,000	3,000	3,000	9,000	54,000
3.3 Exchange Visits in Region		5,000	5,000	5,000	15,000	90,000
TOTAL MONITORING, EVALUATION, LESSONS L.	30,000	38,000	38,000	23,000	129,000	774,000
4. OTHER COSTS AND CONTINGENCIES						
4.1 Audits	10,000	10,000	10,000	10,000	40,000	240,000
4.2 Provisions for Steering Committees	2,000	2,000	2,000	2,000	8,000	48,000
4.3 Contingencies (10% of items 3, 4.1, and 4.2)	4,200	5,000	5,000	3,500	17,700	106,200
TOTAL OTHER COSTS AND CONTINGENCIES	16,200	17,000	17,000	15,500	65,700	394,200
5. RESERVE FUND: TECHNICAL ASSISTANCE			400,000	263,770	663,770	3,982,620
GRAND TOTAL	276,660	792,840	1,175,590	754,910	3,000,000	18,000,000

**Annex 4/
Structure of the Original Proposal and
the Recommended Design Modification**

Sub-component 4.b according to the proposal	
Fundación para la Inversión y Desarrollo de Exportaciones	
FIDE	
FIDE's own execution of support for value chains in selected cluster	Management of Competitive Funds
<i>Focus on value chains in + 2 selected clusters (zones/sub-sector)</i>	<i>Focus on value chains Proposals and execution by others</i>
Execution of support to two or more clusters through: (a) equipo técnico de FIDE contratado por FIDE y financiado por Danida; (b) proveedores de SDE	Analysis of applications, contracts with NGOs and BDS providers, monitoring and control
Selection Committee	
Technical Team (4) + Administrative Team (3)	
Lessons Learnt and Monitoring and Evaluation	
Institutional/Capacity Development	
↑ SNV	

Sub-component 4.b: Recommended Design Modification

FIDE	FUNDER
Fundación para la Inversión y Desarrollo de Exportaciones	Fundación para el Desarrollo Empresarial Rural
Focus	
2 clusters with commercial potential, e.g. eco-tourism, forest products	MSMEs, small rural producers, indigenous peoples, women
Contracts with foreign enterprises, supermarkets, conversion of the production process etc.	Contracts with supermarkets and exporters, conversion of the production process, strengthening of MSMEs
1. Pre-Allocated Budget for Technical Assistance	
TA Team (1 coordinator, 2 cluster field cluster managers) + Contracted BDS as needed	Own technical and administrative team (46), field units + Contracted BDS as needed
2. Unallocated Budget for Technical Assistance	
Administration and Accounts	
15% of technical assistance budget	15% of technical assistance budget
3. Monitoring and Evaluation, Lessons Learnt, Capacity Development Support on Demand	
National short-term consultants, SNV,..	