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Enabling the rural poor
to overcome poverty

Republic of Honduras

Country strategic opportunities programme

Executive Board — Ninetieth Session
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For: Review

Note to Executive Board Directors

This document is submitted for review by the Executive Board.

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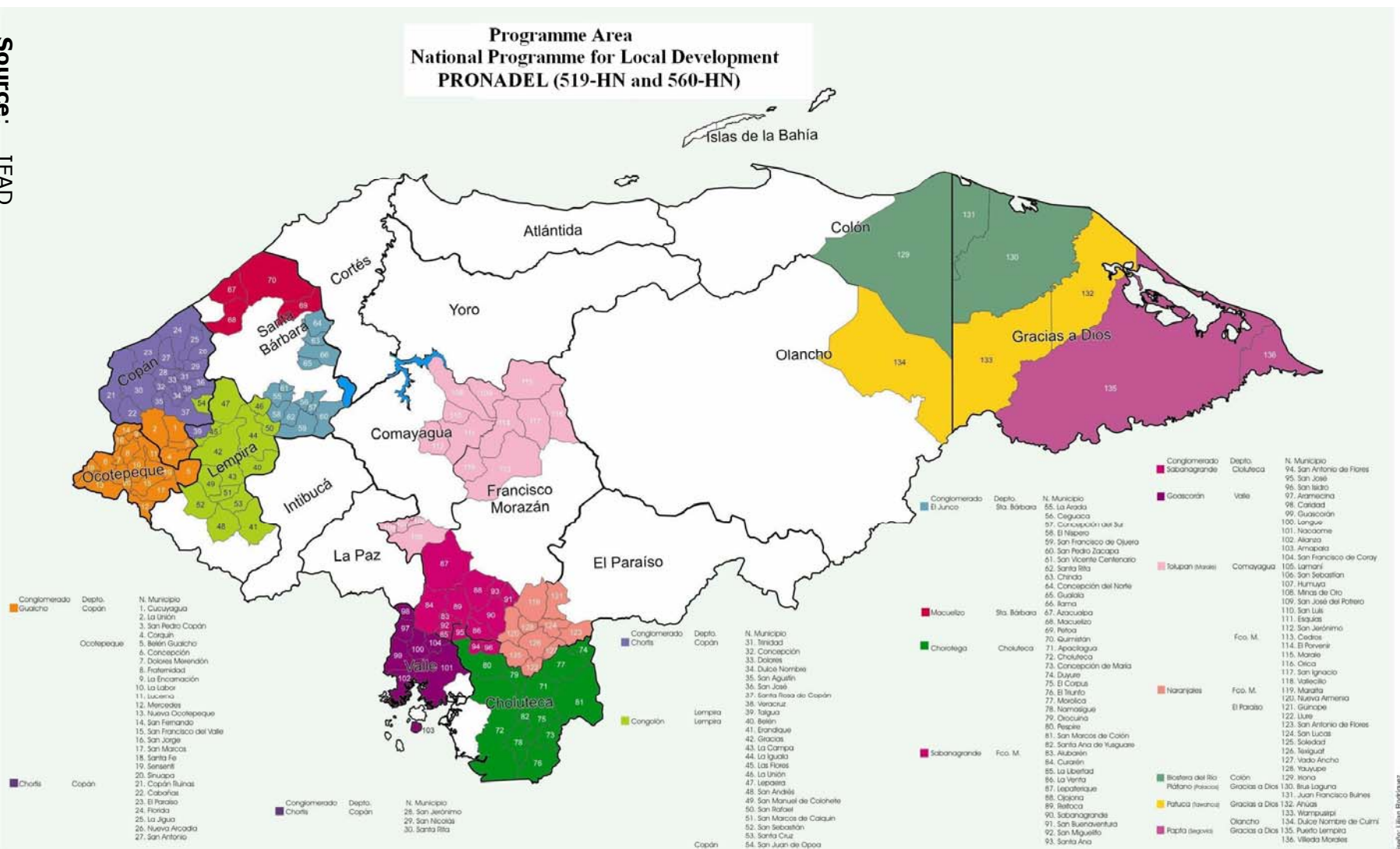
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Abbreviations and acronyms

CABEI	Central American Bank for Economic Integration
COSOP	country strategic opportunities programme
CPE	country portfolio evaluation
FONADERS	National Fund for Sustainable Rural Development Project
IFPRI	International Food Policy Research Institute
PBAS	performance-based allocation system
PREVAL	Programme for Strengthening the Regional Capacity for Monitoring and Evaluation of Rural Poverty Alleviation Projects in Latin America and the Caribbean
PRONADEL	National Programme for Local Development
PRONADERS	National Programme for Sustainable Rural Development
PROSOC	Rural Development Project in the South-Western Region
PRS	poverty reduction strategy
SWAp	sector-wide approach
UNDP	United Nations Development Programme
UPEG	Planning and Management Evaluation Unit

Map of IFAD operations in the country



Fuente: Línea Rodríguez
 Subdirección PGR

Source: IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Summary of country strategy

1. This is the second country strategic opportunities programme (COSOP) prepared for Honduras and covers the 2007-2011 period. Poverty in Honduras has remained essentially unchanged since 1997 and the level of income inequality has been identical since 2003. However, from 2003 to the present, poverty levels have declined from 53 to 51 per cent, while extreme poverty has decreased from 25 to 24 per cent. Although the population is evenly split between urban and rural areas, the rural poor account for 74 per cent of the poor and 86 per cent of the extreme poor nationwide. Honduras prepared a poverty reduction strategy (PRS) in 2001, which was updated in 2006. The last assessment of PRS implementation, in 2005, indicated that, despite some progress, further efforts were needed, in particular to: (i) improve macroeconomic stability and reduce the fiscal deficit, while simultaneously achieving poverty-reducing spending targets; (ii) strengthen transparency in fiscal and public financial management systems; (iii) consolidate the system of monitoring indicators; (iv) pursue Government-led efforts to realign donor assistance to the PRS; and (v) gain a better understanding of the distributional impacts of reforms and external shocks.
2. In nearly 25 years of operations in Honduras, IFAD has concentrated on building the capacities of extremely poor populations in upland areas, providing them with access to land, markets and financial and non-financial services, and using distinct funding mechanisms for financing beneficiary initiatives. IFAD's strategy for Honduras is fully consistent with the country's PRS^a and with the views expressed by farmers' organizations, government authorities and the donor community. It also supports the IFAD Strategic Framework 2007-2010 and its principles of engagement. The strategy consists of two main strategic objectives:
 - **Strategic objective 1: Improve income-generating opportunities for the rural poor (on- and off-farm), with special attention to women.** To meet this objective, IFAD will expand funding for farmers' initiatives and encourage rural households to engage in off-farm activities. It will also help the rural poor integrate into the market economy by facilitating their access to technologies and investments for agricultural and non-agricultural activities; promoting their access to assets and opportunities, including investments and technical services that will facilitate their incorporation into value chains; and providing linkages between the dynamic and non-dynamic sectors of the economy.
 - **Strategic objective 2: Strengthen the organizational capacities and bargaining power of the organizations of the rural poor.** IFAD will help build the capacity of the organizations of the rural poor to negotiate and establish alliances with other private-sector actors. It will also enhance their capacity to benefit from trade agreements by creating opportunities for their participation in negotiations. Furthermore, it will raise public-sector agencies' awareness of the need to be more responsive to the concerns of the rural poor, and it will support municipal governments in their use of PRS resources in favour of the rural poor. IFAD will also assist indigenous communities in articulating their specific concerns with public and private entities when pursuing social investments and other benefits for their communities.
3. The fulfilment of both strategic objectives requires a special focus on indigenous groups. This is not only because of their extreme poverty, but also because these groups can only be incorporated into the development process by recognizing their distinct culture and the contribution that that culture can make to development in general.

^a See appendix III.

Republic of Honduras

Country strategic opportunities programme

I. Introduction¹

1. This is the second country opportunities strategy programme (COSOP) for Honduras and covers the five-year period from 2007 to 2011. The previous COSOP covered 2001-2006. Preparation of this document was preceded by a two-phase COSOP mission that visited Honduras between 16 July and 2 August and 29 October and 10 November 2006. During these visits, IFAD and the Government of Honduras organized a series of consultations in Tegucigalpa and Santa Rosa de Copan involving more than 35 organizations representing small-scale farmers, women and indigenous groups. The mission also met with IFAD-funded project staff to discuss lessons learned during the past ten years, and exchanged preliminary ideas about future strategic directions with government authorities, the donor community and NGOs. The recommendations and conclusions of this consultation process are contained in appendix I.

II. Country context

A. Economic, agricultural and rural poverty context

Country economic background

2. Located in the Central American isthmus, Honduras has a land area of 112,492 km² and a population of 7.1 million inhabitants, resulting in an average density of 62.2 inhabitants/km². Its current population growth rate is 2.8 per cent. GNI per capita was estimated by the World Bank to be US\$1,040 in 2004, using the Atlas method. Honduras is one of poorest countries in the Latin America and the Caribbean region. Although the economy grew by an average of 3.1 per cent between 1995 and 2003, this progress has not resulted in improved living conditions or reduced poverty. The Zelaya administration, which took office in January 2006, is expected to continue the economic policies of the previous government in the context of the Poverty Reduction and Growth Facility (PRGF). According to projections by the Central American Bank for Economic Integration (CABEI), the economy will grow by 4 per cent in 2006, led by agriculture and exports; inflation will be at 8 per cent; and international reserves will increase by US\$200 million, which will contribute to exchange rate stability. Interest rates will remain stable and the central government's fiscal deficit will be reduced to 2.3 per cent of GDP. The international community has recognized the achievements of Honduras in maintaining economic stability and making some progress in poverty reduction by approving the third review of the PRGF arrangement, providing debt relief under the Debt Initiative for Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative, and supporting poverty reduction through the Millennium Challenge Account. Under the enhanced HIPC Initiative, IFAD has approved a total of SDR 1,331,915 in net present value (NPV) and has provided debt relief amounting to SDR 601,503 in NPV.

Agriculture and rural poverty

3. The agricultural sector employed about 35 per cent of the country's economically active population, contributing about 23.2 per cent to GDP and generating 74.9 per cent of all exports in 2004. Its contribution can be broken down as follows: crops 63.2 per cent; livestock 10.9 per cent; forest products 8.0 per cent; poultry 8.4 per cent; and fisheries 5.6 per cent. The remaining 3.9 per cent is distributed between beekeeping and agricultural services. The most recent figures included in the Ministry of Agriculture's Strategic and Operational Plan for the Agricultural Sector

¹ See appendix I for additional information.

2006-2010 indicate that, in the last 30 years, production of fruit and vegetables has increased on average by 10 per cent per year, while production of bananas, plantain, cotton and rice has decreased on average by 3 per cent per year. Production of basic grains (including maize and beans), sorghum, coffee and sugar cane has increased on average by 2.3 per cent per year.

4. The Ministry of Agriculture's report concludes that most of the agricultural area is dedicated to the production of low-profit crops; extensive livestock production prevails; land fragmentation is extreme; and the area under irrigation is relatively small. In the last 30 years, the incomes of people involved in the agricultural sector have not increased.
5. The World Bank's Poverty Assessment for Honduras (2006) concludes that poverty has remained essentially unchanged since 1997 and the level of income inequality has been identical since 2003. Between 1998/99 and 2004 poverty declined from 53 to 51 per cent, while extreme poverty decreased from 25 to 24 per cent. Although the population is evenly split between urban and rural areas, the poor are concentrated in rural areas: the rural poor account for 74 per cent of the poor and 86 per cent of the extreme poor nationwide. Poverty in rural areas is concentrated in the western region, which also has the largest concentration of extreme poverty. As a percentage of GDP, remittances to Honduras in 2005 represented twice the amount of official development assistance and foreign direct investment combined (US\$935) and 21.2 per cent of GDP. Remittances equalled 70 per cent of the country's total export revenues, while exceeding total agricultural exports (138 per cent). Remittances are highly concentrated in the United States. One problem facing Honduran migrants is the high cost of money transfers. The reduction of transaction costs combined with strategies to encourage productive investment could support local and community development. IFAD and the Inter-American Development Bank are cofinancing a rural development and remittances project to improve the economic impact of remittances.
6. Indigenous people have substantially higher poverty rates. While indigenous people account for 6.5 per cent of the population (approximately 460,000 people), 71 per cent live below the poverty line. Some 60 per cent of those surveyed during the census, self-identified as Lenca, have an even higher poverty rate at 84 per cent.
7. A recent study by the International Food Policy Research Institute (IFPRI) has confirmed that woman-headed households in hillside areas have about 30 per cent lower income than man-headed households and receive less than half the level of government transfers. Rural women work a minimum of 12 hours a day, of which nearly eight hours are dedicated to domestic chores and raising children. On average rural women dedicate nearly five hours to agriculture-related activities. Nearly 70 per cent of rural women are illiterate, and only 20 per cent have reached the secondary level of education.
8. The 2006 human development index, published by the United Nations Development Programme, gives Honduras a ranking of 0.664, and its Gini index stands at 0.568 (2003). The gender potentiality indicator is significantly lower than the overall indicator at 0.650. Economic reforms have failed to bring about better conditions for the population at large although modest reductions in poverty have been noted. In absolute terms, some 110,000 more households lived in poverty in 2003 than they did in 1992.

B. Policy, strategy and institutional context

National institutional context

9. **Sector policies and strategies.** The Ministry of Agriculture presented its Strategic and Operational Plan for the Agricultural Sector 2006-2010 in September 2006 to reflect priorities of the Zelaya administration. This new plan was based on a comprehensive policy document prepared by the previous administration for the food and rural sectors, and covering the 2004-2021 period. The strategy has five main

thrusts: (i) supporting competitiveness and quality; (ii) furthering productive integration of food and agricultural value chains; (iii) developing peasant agricultural and gender equity; (iv) establishing a new institutional framework for the sector; and (v) promoting public-private sector coordination.

10. The plan proposes the use of a sector-wide (SWAp) and subsectoral approaches (sub-SWAp) in the context of the country's food and agriculture sector as a planning and management instrument. It also sets out a number of policies to be implemented in order to meet objectives and obtain the expected results. These concern: (i) access to technological innovations; (ii) efficient and equitable commerce; (iii) sustained improvement of animal and plant health services; (iv) generation and dissemination of strategic information; (v) capitalizing human resources; (vi) public-private alliances for competitive investment; (vii) sustainable access to agricultural credit and rural financing; (viii) access to land security and equity; (ix) sustainable use of natural resources; and (x) institutional reforms.
11. The effectiveness of the recently adopted strategies and policies still needs to be tested. However, a recent United Nations Common Country Assessment notes that past public policies on rural sector development have emphasized promotion of the modern, export-oriented agricultural sector and that efforts aimed at addressing the plight of the rural poor have been weak and have had little impact.

National rural poverty reduction strategy

12. Honduras prepared a poverty reduction strategy (PRS) in 2001 and revised it in 2006. Implementation is the responsibility of a commissioner appointed by the President.
13. The PRS includes five pillars: (i) furthering sustainable growth; (ii) reducing rural poverty; (iii) reducing urban poverty; (iv) strengthening social protection of vulnerable groups; and (v) guaranteeing sustainability by improving governance and environmental management. The main objectives and indicators include: (i) reducing poverty and extreme poverty by 24 percentage points from 66 per cent in 1999; (ii) maintaining a 3 per cent GDP per capita growth rate and an overall growth rate of 5 per cent; (iii) increasing access to basic education, primary health care and potable water, and reducing infant mortality and malnutrition. The strategy also proposes increasing the gender development index as part of the human development indicators.
14. Strategy implementation in the rural sphere involves the Ministry of Agriculture and the National Programme for Sustainable Rural Development (PRONADERS). The Ministry uses SWAps to support PRS implementation. The Ministry of Home Affairs is also becoming more deeply involved in territorial development and in follow-up to the transfer of resources to municipalities as part of PRS efforts.
15. Formulation of the PRS included consultations with and the participation of civil society, and was supported by the international donor community. A group of resident donor agencies continue to participate actively in providing guidance on PRS implementation and follow-up support.
16. The last assessment made by the International Monetary Fund and World Bank in 2005 indicates that progress in implementing the PRS had been made but that further efforts were needed to: (i) improve macroeconomic stability and reduce the fiscal deficit, while simultaneously achieving poverty-reducing spending targets; (ii) strengthen transparency in fiscal and public financial management systems; (iii) consolidate the system of monitoring indicators; (iv) pursue government-led efforts to realign donor assistance to the PRS; and (v) understand more fully the distributional impacts of reforms and external shocks.
17. Other areas requiring further work included: (i) continuing fiscal consolidation and ensuring a sustainable wage policy; (ii) maintaining the tax ratio and pursuing further public-sector restructuring; (iii) ensuring financial stability by avoiding any

slippages in the implementation of the authorities' financial system reform programme; (iv) expanding the prioritization of programmes at the sector level through cost-effectiveness criteria; (v) identifying contingency measures to address the risks to the strategy, to ensure attaining PRS and Millennium Development Goals; and (vi) scaling up social auditing mechanisms such as citizen report cards to ensure that programmes and projects translate into tangible and sustainable benefits for the population.

18. In 2005, IFAD commissioned a study on the PRS process in Honduras and Nicaragua, and is presently completing this assessment as part of a more comprehensive study including countries in Africa and Asia.
19. The lead agency within the agricultural and rural development sector is the Ministry of Agriculture; within it, PRONADERS plays an important role in addressing the needs of the rural poor. This programme has two distinct functions: a National Directorate for Sustainable Rural Development (DINADERS) and a Sustainable Rural Development Fund. While DINADERS implements, the fund is responsible for financing initiatives and overseeing the financial administration of projects. Other agencies include the National Agrarian Institute, the National Forestry Development Corporation and the National Bank for Agricultural Development. A number of services and programmes in the Ministry of Agriculture will be restructured under a new operational and strategic plan. These include the National Animal and Plant Health Service, the National Agricultural Education and Training Service, the National Irrigation and Rural Infrastructure Service, the National Agricultural Information Service and the National Directorate for Agricultural Science and Technology. Programmes include the National Food and Agriculture Development Programme, the National Fisheries and Aquaculture Programme, the National Forestry Programme and PRONADERS.
20. Two other ministries are considered relevant: the Ministry of Natural Resources and the Environment; and the Ministry of Home Affairs with responsibility for the implementation of the Local Development and Decentralization Programme.

Harmonization and alignment

21. Donor coordination and cooperation dates back to 1999 when, following the severe damage caused by Hurricane Mitch, the donor community – at a meeting of the Consultative Group for the Reconstruction and Transformation of Central America held in Sweden in May 1999 – agreed upon the goals and principles set out in the Stockholm Declaration. As foreseen in the Declaration, a donor coordination group was established, which now meets regularly in Honduras under the name of G16, representing the number of donor agencies participating.
22. The Government intends to lead the harmonization and alignment process in terms of assigning international cooperation resources through the Ministry of Agriculture's Planning and Management Evaluation Unit (UPEG). UPEG's activities will be undertaken through an investment and support services programme, where the sector-wide approach will be used as a planning and management instrument. The Strategic and Operational Plan 2006-2010, which includes this approach, presents a preliminary estimated investment and financial framework.
23. A recent evaluation of PRS implementation – conducted by Trócaire, an Irish NGO – notes that there have been very few concrete efforts at harmonization (although the donor community has pressed the new administration to update the original 2001 poverty reduction strategy paper). The preparation of a new country assistance strategy by the World Bank has moved the process forward, and there is agreement on some indicators. These developments and the existence of a well-established mechanism for donor coordination through sector working groups (G16) may improve policy coordination and alignment, especially as the Ministry of Agriculture pursues development of a number of sub-SWAPs in accordance with its Strategic and Operational Plan.

III. Lessons from IFAD's experience in the country

A. Past results, impact and performance

24. Honduras has benefited from a country portfolio evaluation (CPE)² conducted in 1996, which provides a complete summary of findings and lessons learned in relation to the four projects implemented at that time. Since then, IFAD has funded three new operations. Of these, one project, the Rural Development Project in the Central Eastern Region, has recently been completed, at a total cost of US\$12.3 million.
25. Ongoing operations include the National Fund for Sustainable Rural Development Project (FONADERS), with a total cost of about US\$25.7 million and the National Programme for Local Development (PRONADEL), with a total cost of US\$31.3 million. As at 1 December 2006, the former had disbursed nearly 80 per cent of the loan proceeds while the latter had disbursed only 33.3 per cent. Both are presently operating under one project implementation unit; their closing dates have been extended to 31 December 2009; and their overall projects-at-risk rating under the performance-based allocation system (PBAS) prepared in September 2006 was 2. The most recent portfolio review finds that progress in implementation is mostly on target while progress in meeting development objectives is substantially below target. These operations are cofinanced by CABEI (FONADERS US\$1.5 million and PRONADEL US\$5.0 million). The Global Environment Facility is providing US\$3.0 million in parallel financing for PRONADEL.
26. The CPE noted that the influence of the Fund's projects on decisions taken by the national authorities had been limited and that IFAD had not been able to collaborate on a national or sector strategy aimed at putting into operation a plan or national programme to combat rural poverty. Moreover, the projects' focus on increasing production and agricultural productivity did not benefit the poorer sectors since they depended far less on agriculture and derived most of their income by working as labourers or in non-agricultural activities. It was estimated that the projects had reached 935 beneficiary groups, including almost 170 women's groups, and had benefited nearly 15,000 peasant farmers and 2,500 rural women.
27. Prior to the 1996 CPE, IFAD had cancelled the Santa Barbara Rural Development Project, which had only disbursed 23 per cent of the total US\$12.2 million allocated; and suspended disbursement on the Intibucá-La Paz Rural Development Project for nearly three years while extending the project closing date by more than 4.5 years. Implementation of ongoing projects under the 2001-2006 COSOP is mostly on target although progress in meeting development objectives is considered to be substantially below target.

B. Lessons learned

28. The CPE identified the following issues: (i) area development projects play a role in certain domains but do not influence national-level efforts to combat rural poverty; (ii) availability of agricultural technology is limited; (iii) although working with existing groups is warranted, building social capital should not be neglected; (iv) the dominant role given to credit should be revised; (v) the landless population and intervention in the land market should be considered; (vi) the possibilities for beneficiaries to participate in the labour market should be assessed; (vii) indigenous populations and rural women should be a central concern of project interventions; (viii) proper procedures are needed for selecting, contracting and evaluating project staff; and (ix) experiences gained by other projects in Honduras and the Central American region should be shared.
29. Lessons from the two ongoing operations can be drawn from the mid-term review, prepared by the Zamorano Agricultural School's Socioeconomic Development and Environment Department in May 2006. The review concludes that the projects are

² See appendix V.

relevant and in line with the policies of the Zelaya administration, which should allow IFAD to engage in a positive dialogue with sector authorities. However, a number of issues have emerged, including (i) lack of clarity on the part of the Government in terms of the spheres of influence of the Ministry of Agriculture and PRONADERS in relation to the projects; (ii) centralized project implementation and lack of a comprehensive implementation approach; (iii) politicization of appointments, slow project execution and lack of transparency; (iv) difficulties in identifying beneficiary demands; (v) scant attention paid to the needs of rural women and indigenous groups; (vi) loss of control over investment resulting from too wide a geographical coverage; (vii) diffused roles and responsibilities among the many actors involved in implementation; and (viii) poor monitoring with too much emphasis on meeting set targets rather than evaluating by impact results.

30. The mid-term review has also charted a course of action, which may correct most, if not all, of the deficiencies. Proposals include the need to: (i) align project interventions clearly and explicitly with national policies and strategies; (ii) strengthen decentralized management; (iii) clarify the institutional roles of all involved stakeholders; (iv) further inclusion; (v) use a territorial approach; (vi) pursue environmental management approaches; (vii) establish an impact observatory as an autonomous entity; (viii) implement project activities in the Mosquitia region in partnership with others already operating in the area; (ix) create a new corporate image; (x) deepen the capacity-building dimension; (xi) develop high-quality operational standards; (xii) design an impact monitoring system for interventions; (xiii) refine the projects' investment strategies; and (xiv) articulate financial and non-financial projects interventions. Further to the mid-term review and during the COSOP consultation process, three main issues were identified as having had an impact on performance: (i) the actual size of the combined loans and cofinancing; (ii) the large geographical coverage and the wide array of possible investments; and (iii) the institutional setting, which may have seen IFAD involved in sector policies over which it had no control.

IV. IFAD country strategic framework

A. IFAD comparative advantage at the country level

31. In nearly 25 years of operations in Honduras, IFAD has gained considerable expertise in a number of fields, which provides it with comparative advantages that are based on the length of its experience in the country; its concentration on extremely poor hillside areas; its focus on building beneficiary capacities and on providing access to land, markets and financial and non-financial services; and its use of a distinct funding mechanism for financing beneficiary initiatives.
32. All IFAD projects have been implemented in hillside areas with slopes of more than 12 per cent. The major economic activity in these areas, which account for roughly 80 per cent of the total land area, is smallholder farming focusing on the production of basic grains. Food security is the most important objective.
33. Considerable experience has been gained in creating an organizational base for project operations. The women's groups, formed as part of project activities, have encouraged higher self-esteem among members. A number of leaders have emerged over the years. Project evaluations have provided IFAD with significant insights in this regard, and implementation of PRONADEL will complement what has already been learned.
34. IFAD has acquired knowledge in ensuring greater security for land tenure, normalizing the landholding situation of farmers in agrarian reform settlements and providing titles to native Lenca communities and other indigenous groups. Experience already gained is being expanded in relation to the provision of financial and non-financial services. PRONADEL envisages financing non-financial services through a rural development fund and assisting in reducing the financial and

operational risks of credit and savings operations. IFAD has a comparative advantage in working with community savings and loans organizations.

35. Although the use of a rural development funding mechanism may still be considered a work in progress, IFAD has gained experience in establishing a matching grant mechanism through which beneficiaries have access to technical assistance services and may implement community-level microprojects.

B. Strategic objectives

36. IFAD's strategy for Honduras is fully consistent with the country's PRS³ and will contribute to the Government's efforts to meet the targets it has set in its agricultural sector policy and operational framework. The objectives described below are also fully consistent with the views expressed by farmers' organizations during discussions leading to the preparation of this document and with the opinions of government authorities and representatives of the donor community.
37. As in the past, IFAD continues to aim at increasing the incomes of the rural poor by funding local initiatives and the plans of small-scale farmers in the hillside areas of the country, and by promoting financial services that contribute to poverty reduction. Based on IFAD's ongoing projects in Honduras, the country programme will be designed to include: (i) implementation of the mid-term review recommendation relating to PRONADEL, which has an undisbursed amount of approximately US\$20 million; (ii) the leading role played by UPEG through the sector table on natural resources and rural development with the full participation of G16 representatives; (iii) the potential for collaboration with the World Bank in the design of a project on rural competitiveness; and (iv) the complementary focus of IFAD's regional interventions especially through a regional grant to include farmer organizations in the implementation of the Dominican Republic – Central America – United States Free Trade Agreement (DR-CAFTA).
38. The strategic objectives for this COSOP are in line with the IFAD Strategic Framework 2007-2010 as they will aim at ensuring that poor rural men and women have better and sustainable access to natural resources, effective production services, a broad range of financial services, transparent and competitive produce markets, and opportunities for rural off-farm employment and enterprise development.
39. **Strategic objective 1: Improve income-generating opportunities for the rural poor (on- and off-farm) with special attention to women.** This strategic objective addresses the need to further the participation of the rural poor in a market economy by helping them gain access to technologies and investment for agricultural and non-agricultural activities. A two-pronged approach will be pursued in terms of furthering specialization and/or diversification aimed at increasing incomes. Specialization is understood as the integration of small-scale producers in agricultural and forestry value chains. Diversification refers to the development of micro, small and medium-size enterprises as stand-alone ventures or as joint or associative ventures with other more dynamic sectors of the economy in a rural-urban continuum.
40. IFAD's activities will promote the rural poor's access to assets and opportunities, with a view to improving their individual and group capacities. They will also address needs for greater access to technology, investments and technical services for the incorporation of value added through processing and/or diversification of products, improved access to markets, and increased financial resources. These objectives may be achieved through: (i) linkages between the rural and urban sectors; (ii) participation in goods, services and employment markets; and (iii) linkages between dynamic and non-dynamic sectors of the economy.

³ See appendix III.

41. IFAD will continue to provide funding for business initiatives at local and territorial levels. To pursue this objective further, the Fund will consider the lessons learned from the implementation of PRONADEL, ascertaining the success or failure of the subprojects undertaken in order to decide whether they should be replicated and/or scaled up. Under this strategic objective, future interventions will continue to improve operational mechanisms for the approach already in place and will consider providing additional support for creating positive externalities, which will result in higher achievements for business ventures undertaken by project beneficiaries. Experience under the Rural Development Project in the South-Western Region (PROSOC) shows that alliances forged between technical assistance providers and small-scale organized farmers can serve to make produce more attractive to supermarket chains. This risk-sharing approach will be explored further.
42. **Strategic objective 2. Strengthen the organizational capacities and bargaining power of the organizations of the rural poor.** This strategic objective will build the capacity of small farmers' organizations to manage and administer business ventures that can be a source of higher income and better livelihoods. The capacity to form alliances with the private sector also needs strengthening, given that private players generally offer better income-generating opportunities to poor rural households. Establishing mutually beneficial commercial linkages is a viable and sustainable option in the long term and reinforces measures contained in IFAD's private-sector development and partnership strategy. This strategic objective will improve negotiating capacities of first-, second- and third-tier organizations of small-scale farmers, indigenous communities and women's groups, and also help them to take advantage of trade liberalization. Indigenous communities will receive particular support in articulating their specific concerns with public and private entities and with others indigenous organizations when pursuing social investments and other benefits for their communities.
43. In addition, municipalities and other local entities such as rural savings and loans associations and government agencies need to be more responsive to the needs of rural farmers in terms of both effectiveness and efficiency. Local governments have an important role to play in poverty reduction efforts,⁴ and national government agencies at the local level will need to facilitate the involvement of farmers' groups in a more dynamic economy. The targeting of PRS resources to rural poverty by local governments will be supported, and linkages between the organizations of the rural poor and municipalities will be developed and strengthened. The greater efficiency of agencies, local governments and other local organizations will reduce transaction costs and facilitate project beneficiaries' participation in the market economy. Enabling conditions created through this objective will include facilitating land registration by small-scale farmers, rural women and indigenous groups; and regularizing and increasing the efficiency and coverage of rural savings and loans associations.
44. This strategic objective is consistent with efforts supported by IFAD in a subregional context aimed at facilitating the participation of farmers' organizations in the DR-CAFTA process. A specific programme will create a formal space for policy discussions and the development of instruments that can be of use to both small farmers' organizations and national governments. Based on its experience in this area – particularly the lessons it learned while implementing a programme to strengthen the participation of farmers' organizations within the Commission on Family Farming of the Southern Cone Common Market (the MERCOSUR/REAF initiative) – IFAD will strengthen the capacity of organizations and governments in the region to engage in dialogue and assist them in defining relevant proposals, measures and tools.

⁴ In June 2006, the Congress approved a municipal investment fund for poverty reduction projects for a total of 700 million lempiras, which is assigned based on poverty indices and number of inhabitants.

45. Under strategic objective 2, IFAD will strengthen indigenous peoples' organizations and help build their capacities to participate in the poverty reduction programmes being put forward by the Government and by other donors, especially for the protection and revitalization of indigenous peoples' cultural values, linguistic diversity and traditional knowledge. IFAD will fund initiatives identified in community development plans under strategic objective 1. These could include improving sustainable natural resource management, in accordance with Lenca and other indigenous peoples' perspectives and vision (e.g. management of forest resources, ecotourism), and promoting handicrafts and microenterprises based on the cultural traditions of the beneficiary groups.
46. This intervention is in line with the PRS. IFAD's involvement in this field could contribute to a SWAp being considered by the Government and could lead to closer collaboration with CABEI, which has expressed interest in this area. By providing assistance in pursuing self-identified, -implemented and -monitored subprojects that take indigenous culture as the basis for development, IFAD will further the efforts of other donors in this area and will implement recommendations made by several evaluation missions concerning the need to specifically target indigenous groups.

C. Opportunities for innovation

47. In introducing innovations, IFAD will deepen the experience gained in Honduras (see section on comparative advantages). Because of its relationship with UPEG, IFAD can analyse jointly with the Government the possibility of replicating best practices that have already been tried and have proven successful.
48. **Strategic objective 1:** The Government's decision to improve access to new markets and support competitiveness, and the Ministry of Agriculture's intention of looking at agricultural production in the context of productive chains may provide IFAD with an opportunity to introduce the innovative "economic corridors" approach tried elsewhere in the region. The experience to be gained from the programme for the integration of small producers into value chains, currently under formulation, will also be relevant. In addition, the adoption of the assets approach in the context of the PRS provides an opportunity for innovation based on the experience gained by IFAD elsewhere in Latin America.
49. **Strategic objective 2:** The innovative nature of a regional grant for increasing the capacity of farmers' organizations to engage governments in negotiations in the context of the DR-CAFTA can allow IFAD to contribute with its partners to introducing approaches tried elsewhere (mainly in the MERCOSUR/REAF initiative mentioned earlier). Experience gained by IFAD in other countries in Latin America in introducing innovations in the provision of financial services can be tapped to improve the existing financial services context around the rural savings and loans associations model. Concerning land issues, the World Bank's Access to Land Pilot Project – which is based on an alliance between the public and private sector enabling farm families to purchase land and other productive assets – may be discussed with the Government to determine whether its innovative features could benefit IFAD's target group. Innovations introduced with the support of the International Land Coalition could also be replicated. Equally the Ministry of Agriculture's emphasis on SWAps and sub-SWAps may give IFAD the opportunity to contribute in this regard based on its experience in neighbouring Nicaragua. Finally, IFAD's experience in implementing larger development projects with an indigenous dimension may serve as the basis for introducing culture-based development as a more appropriate way to address the needs of this particular target group.

D. Targeting strategy

50. In collaboration with the World Food Programme and the Food and Agriculture Organization of the United Nations, Honduras has produced detailed poverty maps that allow the poorest municipalities and districts to be easily identified. Existing household surveys also contain enough details to facilitate geographic targeting. Indigenous communities have been identified in the national census and in several studies prepared by other donors. Efforts being made to assist microentrepreneurs and operators of small businesses in hillside areas will also help define the targeting strategy for this group. The experience gained by IFAD in PRONADEL will also contribute to furthering the targeting strategy, which will include membership in rural savings and loan associations (already included in PRONADEL activities).
51. Target groups can also be determined by strategic objectives. As seen below, poor grain farmers and diversified households will be included under strategic objective 1, while local producer organizations, members of rural savings and loans associations and municipalities will be included under strategic objective 2. Indigenous groups and their organizations will be included under both objectives. Through the use of a livelihood strategies approach, it is possible to determine that IFAD's main target group consists of small grain producers living in highland areas or on steep slopes who earn only about US\$0.15 per person per day and who have few other productive assets besides small land parcels (averaging 2 hectares). Other target groups include slightly better-off farmers with potential for participating in farm and non-farm business ventures. Indigenous groups have been clearly identified and are a distinct group for IFAD assistance.
52. Strategic objective 1 will include small-scale farmers and microentrepreneurs in rural areas, landless peasants and indigenous groups. An estimated 140,000 rural households, some occupying public lands, fit this definition, but only a part will be covered by IFAD interventions. All have limited access to services and markets and lack incentives for improving their livelihoods. With some support, however, they may succeed in increasing their income either through on- or off-farm activities.
53. Strategic objective 2 will include small-scale farmers and entrepreneurs, women's groups and rural savings and loans associations; first-, second- and third-tier farmers' organizations; and private-sector entrepreneurs in the food processing and marketing sectors. Municipal and government officials, and the management staff of credit and saving associations will also benefit from programme activities.
54. Household surveys conducted by IFPRI and the University of Wisconsin (United States of America) – and subsequently incorporated in the Honduras case study of the World Bank's Drivers of Sustainable Rural Growth and Poverty Reduction in Central America study – offer an additional opportunity to define IFAD's target groups in the country. A typology was developed using livelihood strategies and clustering them accordingly. By combining the results of cluster analyses, eight rural livelihood strategies were identified in Honduras: (i) pure basic grains farmers; (ii) basic grains and off-farm work; (iii) diversified households; (iv) extensive livestock farmers; (v) coffee farmers; (vi) small-scale vegetable farmers, permanent crop producers and intensive livestock farmers; (vii) households that have their own businesses; and (viii) households who live exclusively off remittances. Indigenous groups, approximately 460,000 people, form part of the basic grain farmer's group. Lenca and Tawahka mainly inhabit hillside areas while Garífuna inhabit the Atlantic coastal areas.

E. Policy linkages

55. In pursuing policy dialogue, IFAD, alongside other bilateral and multilateral donors, will cofinance implementation of the Ministry of Agriculture's Strategic and Operational Plan for the Agricultural Sector 2006-2010, where SWApS will be used as a planning and management instrument. This plan, together with the investment and financial framework for 2006-2010, supports improved donor coordination in

agriculture and forestry development. Given the limited financial resources available to Honduras, IFAD's comparative advantage will be its experience in the country and the knowledge it has gained in promoting decentralized rural development, particularly through income-generating activities for the rural poor and their organizations. Specific attention will be paid both to the use of the assets approach as contained in the revised PRS and to the decision made by the authorities to pursue management for results and accountability frameworks. The following policy issues, grouped by strategic objectives, will be discussed:

56. **Strategic objective 1:** Policies for sustainable rural development have been articulated in the new strategic and operational plan. Significant under this strategic objective is the Government's decision to reorient public-sector institutions and build public-private partnerships. Although the new plan attaches great importance to this strategy, it provides few details on how these alliances can be forged and what operational modalities will need to be established. IFAD and the World Bank may jointly discuss these issues with Ministry of Agriculture authorities. As the Bank advances in the design of a rural competitiveness project, IFAD will seek, in the interests of harmonization, a comprehensive and shared understanding on how the Bank project and a new IFAD operation can best reflect the Government's approach.
57. **Strategic objective 2:** Strengthening the capacities of small-scale farmers' organizations can be seen in the context of Ministry of Agriculture policies for competitive and efficient commerce, and its approach linking public and private actors. IFAD may discuss with the Ministry its decision to establish complementary activities among the different links in agro-food chains. Of particular relevance is the Ministry's stated objective to include representatives of farmers' organizations in various committees, including an international relations commission for agriculture. IFAD could assist in the preparation of different frameworks for production and marketing, and in the overall restructuring of agricultural sector institutions. It could also enter into dialogue with various government entities to promote changes to the agricultural modernization law and urge that the modalities implemented under the World Bank's Access to Land Pilot Project be scaled up to include indigenous communities, agricultural and forestry cooperatives, and groups of rural women. Policy dialogue may also concern the adoption of measures to encourage savings mobilization, including regulation of the operations of alternative financial service providers. IFAD may also find it useful to participate in discussions related to the National Bank for Agricultural Development. Finally, IFAD could engage in dialogue with the Government concerning its decision to provide funding to municipalities for PRS activities so as to ensure that the rural poor are not excluded.

V. Programme management

A. COSOP management

58. The COSOP will be implemented in accordance with the Latin America and the Caribbean Division's programme of work within the Seventh Replenishment, and will include the design and formulation of one new operation along the lines suggested in the strategic objectives. Since the current portfolio includes a project with an undisbursed balance of nearly US\$20 million, the new operation will be designed in tandem so as to sharpen impact and contribute to improved performance. The COSOP will be reviewed annually, initially in mid-2007 during a first in-depth analysis of progress made in implementing recommendations for improving the performance of the National Programme for Local Development (PRONADEL). A one-day meeting will be organized with representatives of the programme, CABEI (as the cooperating institution and cofinancier), the United Nations Development Programme (UNDP), the Department of Socioeconomic Development and Environment of the Zamorano Agricultural School, and UPEG. The meeting will consider a country programme progress report, prepared by the Division, containing information on the annual institutional and sector analysis of the PBAS, progress in the context of the Results and Impact Management System, the country programme sheet and the

project status report. UPEG and the National Technical Assistance Unit will collaborate closely with IFAD in monitoring COSOP implementation.

B. Country programme management

59. Since February 2004, a field presence officer has worked on a pilot programme in Honduras and Nicaragua, contributing to improved communication between IFAD headquarters and its country operations, and better networking with other in-country stakeholders.
60. Country team arrangements in Honduras will build on the rich experience gained through the Regional Unit for Technical Assistance and other regional programmes – Centro Internacional para el Desarrollo Humano, DR-CAFTA, the Programme for Strengthening the Regional Capacity for Monitoring and Evaluation of Rural Poverty Alleviation Projects in Latin America and the Caribbean (PREVAL), and FIDAMERICA (the Internet-based network of organizations and projects working with the rural poor in Latin America and the Caribbean). The experience of IFAD programme staff, the UNDP (in managing programme contracts) and CABEI staff will also be used to good advantage.
61. It is recommended that supervision of IFAD operations in Honduras continue to be entrusted to the current cooperating institution (the Central American Bank for Economic Integration), especially for fiduciary control and support. However, the arrangement should be flexible as IFAD may consider in the near future taking on greater responsibility for regular implementation support, including the engagement of national institutions or individuals.

C. Partnerships

62. IFAD will continue its partnership arrangements with government entities, farmers' organizations, other donors, academic and research organizations, NGOs and the private sector. Within government, the Ministry of Finance is the representative of the borrower while the Ministry of Agriculture will continue to be the focal point for future IFAD-funded operations. IFAD will strengthen its partnership with UPEG in all matters related to monitoring and evaluation, furthering the use of IFAD instruments such as the institutional and sector analysis of the PBAS methodology and the annual Results and Impact Management System assessments. UPEG plays an important role in developing new internationally funded interventions and is currently contributing to the formulation of a World Bank rural competitiveness project, which is also of interest to IFAD. The Fund will follow the development of this project closely and, through UPEG, will seek to expand country ownership of the initiative. IFAD will also strengthen its long-standing partnership with CABEI, which has indicated that it will continue cofinancing new IFAD initiatives in the country. The Fund may use a grant mechanism to collaborate with CABEI on initiatives of common interest.
63. As regards partnerships with bilateral donors and other United Nations players, IFAD will explore cooperation with the Millennium Challenge Corporation, which is currently implementing a US\$72 million rural development project in the country. Although the project is targeted at higher-income small-scale farmers' groups, many of its interventions – in terms of technical assistance, financial services and rural infrastructure – can benefit IFAD's target group. IFAD has a well-established partnership with the UNDP, which includes cofinancing of PRONADEL and an administrative agreement to manage the PROSOC, FONADERS and PRONADEL initiatives. In addition, UNDP hosted the Field Presence Pilot Programme in Honduras. The upcoming launching of a Global Environment Facility (GEF)/UNDP-supported project linked to PRONADEL provides an opportunity for partnerships with the GEF, UNDP and the Ministry of Natural Resources and the Environment. The project will promote natural resource management and intervention in areas of Honduras that have been poorly served in the past. It will also allow for collaboration with the German Agency for Technical Cooperation, the Council of the European Union and other agencies working in the border provinces and coastal regions.

64. With regard to other partnerships, the implementation of the DR-CAFTA regional grant will no doubt help establish stronger links between IFAD and second- and third-tier farmers' organizations including women's and indigenous groups. As far as academic and research organizations are concerned, IFAD will expand its relationship with the Zamorano Agricultural School, the International Development Research Centre, IFPRI and the Inter-American Institute for Cooperation on Agriculture. Furthering its partnership with the International Land Coalition is also warranted considering the Coalition's experience in Honduras and the relevancy of land issues, particularly in the subregional context and in relation to facilitating the participation of farmers' organizations in DR-CAFTA implementation. Partnerships will be established with NGOs involved in rural enterprise development, such as the Fundación de Desarrollo Empresarial Rural. Partnerships will also be strengthened in the context of disaster preparedness and mitigation, especially with UNDP, based on its experience in the aftermath of Hurricane Mitch, but also with NGOs active in those areas. Partnerships with the private sector, represented by entrepreneurs in value-added chains, and with private providers of technical assistance will also be sought, building on experience gained during implementation of the PROSOC project.

D. Knowledge management and communication

65. Activities to be implemented during this COSOP will contribute to achieving the objectives of the Division's work in the area of knowledge and innovation. The Division will assist UPEG, which is responsible for donor coordination, in developing appropriate instruments for reporting on lessons learned not only through IFAD-funded projects but also through the other interventions of other organizations working to combat poverty and fulfil the country's PRS. Support for knowledge management will also be provided by IFAD's regional initiatives: the Regional Unit for Technical Assistance, FIDAMERICA and PREVAL. Specific attention will be paid to systematizing the knowledge gained in rural finance and building the capacities of farmers' groups to address issues resulting from trade liberalization and its impact on smallholders.

E. PBAS financing framework

66. The amount of IFAD funding available during the COSOP implementation period is based on the annual allocation established for COSOP year 1. This allocation includes a project-at-risk rating, the International Development Association resource allocation index and the final country scores, and amounts to approximately US\$2.13 million (table 1).
67. Table 2 provides indicative financing scenarios. If implementation of the existing programme deteriorates and performance scores fall, the overall allocation for Honduras will decline by 19 per cent. By the same token, if indicators improve for more than two consecutive years, the overall allocations will rise by 12 per cent.

Table 1
PBAS calculation for COSOP year 1

<i>Indicator</i>	<i>COSOP year 1</i>
Rural sector scores	
A(i) Policy and legal framework for rural organizations	3.80
A(ii) Dialogue between government and rural organizations	3.75
B(i) Access to land	3.25
B(ii) Access to water for agriculture	3.18
B(iii) Access to agricultural research and extension services	3.69
C(i) Enabling conditions for rural financial services development	3.31
C(ii) Investment climate for rural businesses	3.69
C(iii) Access to agricultural input and produce markets	3.69
D(i) Access to education in rural areas	4.08
D(ii) Representation	4.19
E(i) Allocation and management of public resources for rural development	3.75
E(ii) Accountability, transparency and corruption in rural areas	3.66
Sum of combined scores	44.03
Average of combined scores	3.67
PAR rating (2006)	2.00
IRAI (2005)	3.91
Country score	2.086
Annual allocation (United States dollars)	2 127 638 (2007)

PAR = Project-at-risk

IRAI = International Development Association Resource Allocation Index

Table 2
Relationship between performance indicators and country score

<i>Financing scenario</i>	<i>PAR rating (+/- 1)</i>	<i>Rural sector performance score (+/- 0.3)</i>	<i>Percentage change in PBAS country score from base scenario</i>
Hypothetical low case	1	3.37	-19
Base case	2	3.67	0
Hypothetical high case	3	3.97	12

F. Risks and risk management

68. There are a limited number of risks associated with reaching the COSOP's strategic objectives. The experience gained during PRONADEL implementation indicates that if a project area is too large, inadequate attention will be paid to the designated project beneficiaries. Political interference in recruitment also poses risks to efficiency and transparency.
69. The revised PRS mentions a risk that may affect COSOP implementation: rural-to-urban migration. The Government intends to counteract this risk by implementing strategies that diversify rural employment and encourage income-generation. Other overall risks included in the PRS are ecological vulnerability and natural disasters.
70. Concerning strategic objective 1, there is an inherent risk related to the economic viability and profitability of initiatives proposed by beneficiary groups. This can be mitigated through the use of well-thought-out business plans.
71. With regard to strategic objective 2, there are three risks. The first relates to the willingness of small-scale farmer groups and other private-sector actors to develop joint ventures and take risks. This risk can be mitigated by creating an enabling

environment for partnerships through clear incentives. The second risk concerns the willingness of government agencies to allow farmers' organizations to participate in trade liberalization initiatives and their implementation. This can be mitigated through experience-sharing related to their actual participation in trade liberalization negotiations elsewhere. The third risk relates to the political willingness to introduce new regulations providing access to land and financial services. Provision of information and advocacy efforts among decision-makers may reduce impediments to the adoption of pro-poor policies and regulatory frameworks.

COSOP consultation process

Introduction

As required under the new guidelines for the preparation of COSOPs, COSOP Preparation Mission organized two sets of distinct consultations. During a first mission in July 2006, two consultations were carried out with representatives of small-scale farmers, women and indigenous groups. During a second mission in November 2006, the Preparation Mission organized a consultation with government authorities, representatives of the donor community and non-governmental organizations in the research and development field.

Consultations with farmer organizations

The consultative workshops were held in Tegucigalpa on 24 July 2006 and in Santa Rosa de Copán on 26 July 2006. A total of 39 representatives of 32 rural organizations and public sector agencies participated in the two events. Government entities also attended. Table 1 below provides a breakdown of participating organizations in the two localities.

Table 1. Participants in Consultation Process

Participants	Tegucigalpa		Santa Rosa de Copan		Total	
	Org.	Persons	Org.	Persons	Org.	Persons
Organizations:						
- Second tier	13	15	1	1	14	16
- Grassroots	1	2	14	17	15	19
Sub-total	14	17	15	18	29	35
Public sector	3	4			3	4
Total	17	21	15	18	32	39

Objectives and Methodology

The main objectives of the consultation process included: (i) determining income-generating initiatives by participating groups by region as well as establishing limitations in this regard; (ii) analysing positive and negative aspects of participation in projects and programs on the part of organizations; and (iii) identifying opportunities inherent in the country's Poverty Reduction Strategy (PRS) in accordance with the strategy's pillars.

A methodology based on discussions within a workshop format was designed so as to be able to respond to the selected objectives. A detailed methodological framework was prepared and the workshops conducted by establishing sub-groups which dealt with each of main points of discussion. These groupings took into account poverty conditions in regions of the country. In Tegucigalpa, participants addressed issues in Western Honduras in Ocotepeque, Copán, Lempira, and Santa Bárbara; Central Honduras in Comayagua, Francisco Morazán and Olancho; finally South Western Honduras in Intibucá, La Paz, Valle and, Choluteca. In the Santa Rosa de Copán Workshop, participants addressed issues present in Copan and Lempira. Participants summarized their conclusions at the end of each workshop and commented on the usefulness of the exercise.

B. Findings

Information shared by participants has greatly contributed towards an understanding of the perceptions small-scale farmers, women and indigenous groups have in terms of the possibilities they envisage to increase their incomes, the merits and demerits of their involvement in development projects and, above all, their possible insertion in the poverty reduction strategy adopted by the Government and embraced by the international donor community. Findings are reported below along the three main lines of enquiry.

Main Income Generating Activities

Table 2 below provides information by region based on the priorities assigned to each activity by workshop participants.

**Table 2. Principal income generating activities
Eastern, Central and South Eastern Regions**

Eastern region (Ocotepeque, Copán, Lempira, Santa Bárbara)	Central region (Comayagua, Francisco. Morazán, Olancho)	SOUTH EASTERN REGION	
		Valle-Choluteca	La Paz – Intibucá
Coffee	Coffee	Melon and watermelon	Coffee
Livestock	Basic grains	Shrimp farming	Vegetables
Sugarcane	Livestock	Beekeeping	Fruits
Vegetables		Brazil nuts	Remittances
Basic grains		Sea salt	Livestock

Principal activities identified include: coffee, livestock, vegetables/fruits and basic grains, which continue to be the principal agricultural activities in the selected areas. Of note however, is the difference in importance attached by participants from the Valle and Choluteca Departments where participants underlined the relevancy of export-oriented production where they are involved either by selling their production to export firms or are employed by these firms on a seasonal basis.

Activities such as processing, rural tourism and remittances were not identified as significant although in some areas these activities were included among the ten most important. These are implemented by larger scale producers and other local entrepreneurs. It was noted that basic grains were identified as a priority in the South Eastern and Central regions due to low profitability and the fact that this productive activity was more significant in the context of food security.

Participants identified a number of restrictions in terms of increasing their income including: (i) limited access to credit and markets, technical assistance, marketing and entrepreneurial management; (ii) low technological levels in terms of the use of seeds and equipment; (iii) lack of participation in decision-making processes; (iv) non-existence of strategies and policies for priority areas; and (v) scarce value addition due to lack of packaging, certifications and brand registration. These restrictions are associated with problems traditionally identified by rural organizations. Representatives of second tier organizations linked to export markets indicated that main limitations were found in terms of marketing and transformation processes rather than technical

assistance and credit as this was being provided by the exporting companies. The need for enhancing negotiating capacities and enforcement of contracts was suggested.

Participation in Programmes and Projects

In order to improve impact of development projects and programmes, participants stated that it was important to get to know the points of views of rural organizations in terms of the positive results achieved as well as to discuss issues which have had a negative impact which would require rethinking.

National organizations considered that capacity building was the main positive result in the implementation of programs and projects as it allowed them to respond to the demands placed on them by their grass root organizations going further than their traditional role of pursuing economic and social demands by their members. Programs and projects have allowed them to consolidate and strengthen their organizations and create limited spaces for political dialogue with different stakeholders.

Local organizations also stressed the importance of capacity building in technical, administrative and financial domains. Local organizations also identified as positive the strengthening of technical, administrative and financial activities as well as assistance provided for construction of infrastructure and the provision of services to address the needs of the poor who they serve directly. These organizations have gained experience in farmer to farmer provision of technical assistance services which respond to the demand for assistance by local producers and have developed local financial schemes including the provision of seed capital; training and savings mobilizations. They are able, although in a limited scale, to finance multiple activities.

National leadership representatives highlighted their capacity to negotiate and manage issues at higher levels, while local organizations tended to privilege the fact that they are able to provide practical solutions to problems faced by their members and to try to solve problems which are closer to member realities.

Participants suggested that future projects and programs should aim at: (i) building organizational technical and investment capacity including use of new technologies such as the Internet and informatics; (ii) developing micro-enterprises and provision of training in management and administration; (iii) assisting in improving branding, certifications and registration of products and processes; (iv) establishing strategic and financial alliances with service providers; (v) responding to farmer demands and include the participation of potential beneficiaries in the formulation and implementation of projects; (vi) channelling resources to beneficiaries who have reached acceptable technical and managerial competencies; (vii) recognizing capacity of local producers to provide technical assistance services to other community members; (viii) supporting the establishment of a network for purchasing inputs in the Eastern region; and (ix) providing equal opportunities to all cooperatives taking into account gender dimensions.

Opportunities Present in the Poverty Reduction Strategy

The Honduras PRS was formulated with the full participation of civil society with the aim of developing a sense of ownership to ensure sustainability in the long run. The participatory process took place between January 2000 and May 2001 in which more than 3 500 organizations expressed their views. However, participants in both workshops indicated that although they had been consulted, many had not had access to the final document and those who had indicated they had not read the document.

Bearing in mind the need to align IFAD's intervention with the country's PRS, the consultation process included a discussion on the strategy. Participants were asked to

analyze the opportunities included in the PRSP for improving their livelihoods. Discussions centered on the strategic objectives included under Pillar II under the heading of Reducing Rural Poverty. The following objectives were discussed:

1. Equity and land tenure security;
2. Sustainable development in priority areas;
3. Competitiveness of the rural economy; and
4. Social conditions in rural areas.

Improving equity and security of land tenure.

Workshop participants concluded that access to land and land tenure security was key to development in rural areas. The equity concept used in the PRS context was highly valued as it means giving women access to land directly and under equal conditions with men. Land titling in the name of both partners will be compulsory and include adoption of a land adjudication policy in favour of women. Equally, national organizations present highlighted the importance of adjudicating land to indigenous communities while local organizations emphasized the importance of converting community titles in individual titles. Introducing modifications to present legislation principally to the Agricultural Modernization Law was considered indispensable. Availability of sufficient financial resources was identified as a prerequisite for implementing a land purchasing program and demarcation of community and individual land parcels was given great importance. Strengthening adjudication, titling and clear establishment of property rights will provide an opportunity for rural inhabitant to possess information on institutional processes, recognizing the importance of property titles and moving ahead with the respective procedures. Efforts to ensure land tenure security will have a direct impact on personal and family security which should be accompanied by credit and technical assistance to further production based on real guarantees on the part of small-scale producers. Regional cooperatives and municipal savings and loans agencies, who now face difficulties for the lack of collateral, will consider this as an opportunity to reduce levels of non-payment.

The demarcation of communal and individual land parcels according to representatives of local organizations should be undertaken in agreement between neighbours and only when these agreements are reached adjustments could be made in order to ensure that taxation is carried out in accordance with the dimension of each land parcel.

Sustainable development in priority areas

Representatives of national organizations privileged the strengthening of the National Programme for Sustainable Rural Development (PRONADERS), development of transformation and value adding projects and all activities which may contribute to poverty reduction. Representatives of local organizations emphasized the promotion of agro-forestry projects and off-farm income generation activities. PRONADERS, according to all participants, should support coordination of activities with organizations involved in development and could cover the whole country making use of an existing development delivery system and capacity.

It was pointed out that projects in border areas should be considered especially bi-national initiatives. Participants stressed that in these types of projects, accountability and joint work with local authorities, Government agencies and local organizations was essential.

Agro-forestry should be undertaken at local level which will require adaptation and enforcement of legal frameworks such as the Territorial Reordering and Forestry Control and Management laws. Efforts should also be made to provide training in sustainable use

of natural resources, species diversification and development of management systems through which project participants could obtain environmental and economic benefits

Although participants recognized that increased off-farm activities result in better family incomes and that in order to accomplish this it will be necessary to have better market opportunities, the subject was not fully comprehended by participants as off-farm activities are many. Not having a clear idea of which type of activity should be supported made it difficult for them to prioritise among them.

Improving the competitiveness of the rural economy

Participants considered that the development of agricultural value chains is an opportunity to improve competitiveness bearing in mind that some organizations have the capacity in terms of production credibility and transparency and potential clients in at least 90 percent of all rural areas which will allow them to establish the necessary linkages to succeed in this type of endeavour. They recognized however, that they will require information and training for the preparation of proposals, technical assistance and advisory services on how to link their production to markets.

Development of appropriate technologies for maintenance of rural roads was underlined which will also require provision of technical and financial assistance for its wide dissemination. Participants of the Tegucigalpa workshop stated that it will be necessary to ensure that demand for services was adequately funded through the Road Infrastructure Fund of the Ministry of Public Works and Transport which in turn would require political lobbying in Congress.

Supporting the construction of small scale irrigation will enhance competitiveness if consideration is given to the provision of technical training and management of natural resources as well as guaranteed access to markets. Participants further stated that infrastructure should be built in limited geographical areas using local technologies. The importance of rural electrification was stressed and a proposal made for the creation of a fund to assist in the establishment of small hydroelectric plants which could later lead to the creation of small enterprises which use electricity in their development.

Concerning support services for development of economic activities participants underlined the importance of financial, extension/research services as well as animal and plant health services.

In terms of **financial services**, participants suggested strengthening local financial services by supporting organizations, equipment and capitalization of Rural Savings and Loans institutions or *Cajas Rurales*. Accessing State credit lines was a possibility which should be explored. Participants indicated that they had the experience in managing trust funds and their own savings noting that the high demands surpasses the present financial and management capacity of the *Cajas Rurales*.

The provision of **technical assistance and research services** requires technical and financial support for the establishment of micro-enterprises and of technical units within the organizations so as to enable them to provide the required services. Participants in Santa Rosa indicated that there was an important number of producers trained and with experience who could provide services in several areas including development with a gender perspective.

Concerning **animal and plant health services** participants proposed the creation of community enterprises that could provide the services including the establishment of stores for the sale of veterinary products and chemicals while at the same time implementing animal and plant health campaigns.

Social conditions in rural areas.

Participants in both workshops expressed their interest in the development of rural housing projects and in expanding coverage of potable water and sanitation. In this context they stressed the need for adequate housing which will contribute to better living conditions. Concerning vegetable home gardens they stated this as an important mechanism for ensuring food security. This should be supported by private and public entities that should develop integrated land parcels especially targeted at rural women. With respect to the use of food aid national organizations felt that these resources should be channelled through local governments and that the central government agency responsible for these programmes should recognize grass root organizations in order for them to coordinate these projects directly with intervention by second or third tier organizations.

Conclusions and Recommendations

The following conclusions can be extracted from the consultation process

- Representatives of national and local organizations appreciated being consulted as their voices were seldom heard. They noted that the review of the PRS allowed them to better understand government approaches
- The dichotomy of export oriented and contract agriculture and that of small-scale producers in hillside areas remains and the former will gain ground as free trade agreements materialize
- Small-scale farmers in poorer areas had a poor understanding of off-farm activities and were hardly involved
- Limitations for increasing income by small-scale farmers included issues identified in the past such as lack of access to land, credit and technology while representatives of second tier organizations underlined the importance of building negotiating capacities and enforcement of contracts
- Programs and projects in favour of the rural poor and small-scale farmers should be designed with the full participation and involvement of representative organizations
- Capacity building has been the main contribution of development programs and projects. For second tier organizations participation in policy dialogue, although limited, was crucial. Grass root organizations have gained experience in farmer-to-farmer training and will be able to deepen this approach
- The PRS should be translated into: (a) ensuring equity in land acquisition and ensuring land security and access including reform to existing legislation; (b) strengthening PRONADERS and improving delivery mechanism in consultation with civil society; (c) implementing projects in border zones of a bi-national character with involvement of all stakeholders; (d) adapting legal frameworks for agro-forestry activities; (e) providing technical assistance and training for developing of value adding and transformation processes; (f) considering community involvement through the creation of micro-enterprises for road maintenance; (g) implementing small-scale irrigation and rural electrification programs and projects; (h) strengthening rural financial services including the rural savings and loans associations approach; (i) establishing micro-enterprises at the local level for the provision of technical assistance services; (j) creating community enterprises for animal and plant health services; (k) furthering rural housing projects and expanding coverage of potable water and sanitation; and (l) channelling food aid through local governments with the participation of grass root organizations.

Consultation with Government authorities, the donor community and non-governmental organizations

Background

The consultation with government authorities, the donor community and NGOs was held on 2 November 2006 with the assistance of UPEG and CABEI. Government representatives included high level Officials responsible for implementation of the PRS and SAG, while the donor community was represented by the World Bank, the United Nations Food and Agriculture Organization (FAO), the Inter-American Institute for Cooperation on Agriculture (IICA). Among NGOs including research organizations were the Zamorano Agricultural School and Foundation for Entrepreneurial Rural Development (FUNDER). During the meeting, the Mission Leader presented the initial findings and proposals for the COSOP which were then discussed with the participants.

Findings

Government authorities indicated that the GOH is firmly committed to the implementation of the PRS. A revised PRS document is being finalized which identifies 13 goals with their respective indicators activities and products based on a results management framework. Officials responsible for PRS implementation stated that a recent evaluation of progress achieved showed that its objectives have not been reached and that poverty levels have not improved significantly probably due to the fact that main structural questions were not being considered. The situation has changed since the initial document was prepared in 2001 and a number of lessons are being learnt including the need to: (a) provide for better geographical and beneficiary targeting; (b) pursue a more integrated developmental approach; c) further decentralization and participation including financial and responsibility transfers; (d) use of zoning in order to benefit from comparative advantages in agricultural and non-agricultural conditions; (e) consider the provision of access to natural, human, social and financial assets based on the livelihoods approach; (f) emphasize human development as pivotal; (g) forge alliances and build on complementary actions with other government and donor community initiatives; (h) consider risk factors such occurrence of natural disasters. Non-focused and dispersed interventions were hindering progress towards achievement of PRS goals. The need to consider integral development was underlined. At the time there are more than 350 project implementation units which have resulted in weakening institutional strengthening processes.

Agricultural sector authorities stated that the recently approved Strategic and Operational Plan for the agro-forestry sector will contribute towards harmonization and alignment of sector activities with the main PRS goals and those new organizational arrangements for SAG and other agencies will also contribute in reaching the purpose of harmonization and alignment. The Agricultural Development Council (CODA) was being strengthened and an agro-forestry consensus building space was being reinforced represented by a *Mesa Agro Forestal*.

Projects have until now tried to fulfil too many objectives without concentrating on growth drivers, linked to markets together with provision of technologies and financing mechanisms linked with the private sector.

Donor representatives concurred with the appreciations made by the government authorities. Additionally, they indicated that government strategies and plans are ways by which demands are expressed but it is now necessary to address the supply issue by having a clear knowledge of who is doing what. It is necessary to clearly define a scenario for interventions so as to allow each donor to fill in the gaps in terms of cooperation and complementary activities. It was pointed out that there is no efficient

mechanism in place aimed at establishing linkages between projects and donors neither are there mechanism for systematizing experiences and ensuring feedback that will allow for adapting implementation to changing situations.

NGO representatives ascertained that citizenship is extremely weak in rural areas with youths being excluded from the development process with limited opportunities to access financial support or employment. They underlined the importance of ensuring complementarity between numerous activities and initiatives taking into account the heterogeneous nature of conditions in the nearly 21 agricultural and economic spheres in Honduras. Interventions are based on political and administrative boundaries rather than on economic development potential. There is now growing recognition that project implementing units do not share a minimum common understanding on development concepts and approaches.

C. Conclusions and Recommendations

The consultation concluded and recommended that:

- Projects should be designed taking into account the PRS and the Sector Strategic and Operational Plan.
- Goals and indicators should be clearly identified by way of a baseline and be measured periodically.
- New interventions should consider municipalities and grouping of local governments
- Projects should deepen their support to service providers.
- Beneficiaries should be seen in the context of their communities and vertical and horizontal linkages in search of employment generation.
- Special attention should be paid to building and increasing assets in the context of a livelihoods approach and aim at establishing an enabling environment.
- Sustainability should be considered at the outset and assumed by all stakeholders.
- Alliances and information sharing is paramount and mechanisms to measure progress and ensure feedback should be implemented.
- Flexibility in project implementation is crucial to ensure success and impact.
- A multi-sector committee at government level should be established to ensure coordination, monitoring and evaluation.
- Interventions should consider youths by strengthening their skills and knowledge to take advantage of market opportunities jointly with schools, colleges and church organizations.
- Project evaluation mechanism should be revisited and an independent Observatory established to measure impacts.
- Project staffs should understand new rural development approaches and be trained accordingly and
- Integral development approaches including territorial development should provide a framework for implementation of development initiatives taking into account regional disparities, willingness on the part of stakeholders to participate and the use of new and improved development communication approaches.

Country economic background

HONDURAS

Land area (km² thousand) 2004 1/	112	Land Use	
Total population (million) 2004 1/	7.05	Arable land as % of land area 2004 1/	10 a/
Population density (people per km²) 2004 1/	63	Forest area as % of total land area 2004 1/	n/a
Local currency	Lempira (HNL)	Irrigated land as % of cropland 2004 1/	6 a/
Social Indicators		GNI per capita (US\$) 2004 1/	1 040
Population (average annual population growth rate) 1998-2004 1/	2.4	GDP per capita growth (annual %) 2004 1/	2.3
Crude birth rate (per thousand people) 2004 1/	29	Inflation, consumer prices (annual %) 2004 1/	8
Crude death rate (per thousand people) 2004 1/	6	Exchange rate: US\$ 1 =	HNL 0.05293
Infant mortality rate (per thousand live births) 2004 1/	31	Economic Indicators	
Life expectancy at birth (years) 2004 1/	68	GDP (US\$ million) 2004 1/	7 371
Number of rural poor (million) (approximate) 1/	n/a	GDP growth (annual %) 1/	
Poor as % of total rural population 1/	n/a	2003	3.5
Total labour force (million) 2004 1/	3.00	2004	4.6
Female labour force as % of total 2004 1/	37	Sectoral distribution of GDP 2004 1/	
Education		% agriculture	14 a/
School enrolment, primary (% gross) 2004 1/	118	% industry	31 a/
Adult illiteracy rate (% age 15 and above) 2004 1/	20	% manufacturing	20 a/
Nutrition		% services	55 a/
Daily calorie supply per capita	n/a	Consumption 2004 1/	
Malnutrition prevalence, height for age (% of children under 5) 2004 2/	29 a/	General government final consumption expenditure (as % of GDP)	14 a/
Malnutrition prevalence, weight for age (% of children under 5) 2004 2/	17 a/	Household final consumption expenditure, etc. (as % of GDP)	74 a/
Health		Gross domestic savings (as % of GDP)	12 a/
Health expenditure, total (as % of GDP) 2004 1/	7 a/	Balance of Payments (US\$ million)	
Physicians (per thousand people)	n/a	Merchandise exports 2004 1/	1 537
Population using improved water sources (%) 2002 2/	90	Merchandise imports 2004 1/	3 916
Population with access to essential drugs (%) 2/	n/a	Balance of merchandise trade	-2 379
Population using adequate sanitation facilities (%) 2002 2/	68	Current account balances (US\$ million)	
Agriculture and Food		before official transfers 2004 1/	-1 772
Food imports (% of merchandise imports) 2004 1/	16 a/	after official transfers 2004 1/	-413
Fertilizer consumption (hundreds of grams per ha of arable land) 2004 1/	470 a/	Foreign direct investment, net 2004 1/	293
Food production index (1999-01=100) 2004 1/	111	Government Finance	
Cereal yield (kg per ha) 2004 1/	295	Cash surplus/deficit (as % of GDP) 2004 1/	n/a
		Total expenditure (% of GDP) 2004 1/	n/a
		Total external debt (US\$ million) 2004 1/	6 332
		Present value of debt (as % of GNI) 2004 1/	38
		Total debt service (% of exports of goods and services) 2004 1/	8
		Lending interest rate (%) 2004 1/	20
		Deposit interest rate (%) 2004 1/	11

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2006

2/ UNDP, *Human Development Report*, 2005

COSOP results management framework

<p>Country strategy alignment Poverty Reduction Strategy and Targets PRS Objective: Improving the competitiveness of the rural small economy Increase production and improve the efficiency and competitiveness of small rural producers</p> <p>Baseline data Rural per capita income: US\$801 in 2004 Child malnutrition 37.8 per cent in 1996</p> <p>Target 10 per cent increase in rural per capita income by 2010 (INE-ENCOVI)</p>	<p>Strategic objectives SO 1 Income generation Improving on-farm and off-farm income generating opportunities for the rural poor</p> <p>SO 2 Capacity Building Improving the organizational capacities and bargaining power of rural poor and their organizations with special attention to women and indigenous people</p>	<p>Key results Outcome that IFAD Expects to Influence</p> <p>10 per cent increase in rural per capita income in IFAD project areas¹</p> <p>10 per cent increase in volume of high value agricultural products and products of micro-enterprises placed in the national and foreign markets</p> <p>20 per cent increase in the number of beneficiary groups including women's groups with access to formal rural financial services in IFAD funded project area</p> <p>20 per cent increase of formal commercial and business relations established between rural poor producers and commercial entrepreneurs</p> <p>15 per cent increase in number of regularized rural properties in IFAD project area</p> <p>At least one ecological and cultural heritage projects implemented according to development plans of indigenous people</p>	<p>Milestone indicators</p> <p>Business plans implemented by organized groups small- scale entrepreneurs.</p> <p>Increased number of agricultural and non agricultural SMEs linked to markets</p> <p>Saving and credit holders with improve financial asset management</p> <p>Rural poor producers have improved negotiation and management capacities</p> <p>Beneficiaries access to land registrations facilities.</p> <p>Development plan for indigenous people elaborated</p>	<p>Institutional/Policy objectives Policy dialogue agenda</p> <p>Built partnership in regularization of rural land parcels and improving equity and security in land access (WB and IDB)</p> <p>Operationalization of GOH and SAG strategy to reorient public sector institutions and build public-private partnership</p> <p>Conductive regulatory framework to facilitate arrangements for joint ventures between small-scale producers and commercial entrepreneurs</p> <p>Regulatory framework for operations of saving and loans mechanisms</p> <p>Participation of farmer organizations in agricultural sector commissions and government forums</p>

¹ IFAD funded programme area (new intervention and on-going projects) municipalities)

Previous COSOP results management framework

	STATUS AT COSOP DESIGN	STATUS AT COMPLETION	LESSONS LEARNED
<p>A Country Strategic Goals: Master Plan for National Reconstruction and Transformation.</p> <ul style="list-style-type: none"> Sustainable rural development through investments policies, employment and income generation. Human capital policies focused on improving education health and health care. Protection and compensation social policies towards the most vulnerable groups. 	<p>Economy</p> <ul style="list-style-type: none"> GDP per capita US\$730 GDP growth rate 2.9 per cent (1998) External debt as percentage of GDP 73.8 per cent Consumer prices 15.6 per cent Contribution of agriculture to GDP 27 per cent Agricultural employment 42 per cent <p>Poverty (1989/99)</p> <ul style="list-style-type: none"> National Poverty: 52.5 per cent Rural Poverty: 71.2 per cent Urban Poverty: 28.6 per cent Extreme Poverty: 25.1 	<p>Economy</p> <ul style="list-style-type: none"> GDP per capita (2004) US\$1,040 GDP growth rate 3.1 per cent (1995-2003) External debt as per cent of GDP 84.9 per cent Consumer prices 8 per cent Contribution of agriculture to GDP 23.2 per cent Agricultural employment 35 per cent <p>Poverty (2004)</p> <ul style="list-style-type: none"> National Poverty: 50.7 per cent Rural Poverty: 70.4 per cent Urban Poverty: 29.5 per cent Extreme Poverty: 23.7 	<ul style="list-style-type: none"> Lack of progress on poverty reduction can partly be explained by combined effects of stagnant GDP growth and the economy's vulnerability and exposure to external shocks and unexpected natural disasters. The economy needs to raise its growth rate to at least 5-6 per cent per year which will reduce the Gini income distribution by 10 per cent. Higher growth rates must be accompanied by accelerated productivity growth in all economic sectors, but particularly in the rural sector where much of the poor are located.
<p>B. COSOP Strategic Objectives:</p>			
<p>Strategic objective 1 Supporting income generation activities, promoting employment opportunities for the rural population in agriculture and non-agricultural activities, as well as through diversification and access to new markets.</p>	<ul style="list-style-type: none"> Need to include a financing instrument to help provide rural services and investments in infrastructure on a demand basis. Need to expand coverage of IFAD interventions in hillside areas to include small-scale farmers, landless peasants and indigenous and Afro descendant communities. 	<p>PRONADEL reached 18 637 beneficiaries through demand driven investment projects: 218 in agriculture, 173 poultry, 87 beekeeping, 153 livestock, 161 small-scale irrigation and 45 other projects for a total of 131.75 million Lempiras.</p>	<ul style="list-style-type: none"> (a) Lack of clarity on the part of government in terms of the spheres of influence of SAG and PRONADERS in relation to the projects; (b) centralized project implementation and lack of a comprehensive implementation approach; (c) politicization in appointments, slow execution and lack of transparency; (d) difficulties in identifying beneficiary demands; (e) scant attention paid to the needs of rural women and indigenous groups; (f) loss of control on investment due to too wide geographical coverage; (g) diffused roles and responsibilities among many actors involved in implementation; and (h) poor monitoring with too much emphasis in meeting set targets rather than evaluating by impact results.
<p>Strategic objective 2 Improving the management of the natural resources base of small hillside farmers to reduce environmental deterioration and promote environmental sustainability.</p>	<ul style="list-style-type: none"> Need to reduce environmental deterioration by making sound use of natural resources: soil water and forests. 		
<p>Strategic objective 3 Supporting introduction of new and innovative financial institutions.</p>	<ul style="list-style-type: none"> Need to expand financial services to meet existing demand and deepen alternative rural financing. 		
<p>Strategic objective 4 Improving human capital resources by: (i) providing education and training in productive activities, marketing</p>	<ul style="list-style-type: none"> Need to develop capacity of beneficiary groups through all encompassing technical assistance. 		

and management; (ii) supporting the improvement of the nutritional status of the rural population through strategic partnerships and increasing the production levels of basic grains and other food staples.	<ul style="list-style-type: none"> • Need to ensure food self sufficiency and improve nutritional levels. 		
C. IFAD operations	STATUS AT COSOP DESIGN	STATUS AT COMPLETION	LESSONS LEARNED
	<ul style="list-style-type: none"> • Ongoing. Rural Development Project in the Central Eastern Region (PRODERCO) • Proposed: <ul style="list-style-type: none"> -Rural Investment Fund Project (FONADERS II) -Small-scale irrigation, agricultural diversification and support for the establishment of a production and environmental services market in hillside areas -Rural Financial System 	<ul style="list-style-type: none"> • Closed. Rural Development Project in the Central Eastern Region (PRODERCO). • Ongoing <ul style="list-style-type: none"> -National Program for Local Development (PRONADEL) -National Fund for Sustainable Rural Development Project (FONADERS) 	<ul style="list-style-type: none"> • Planning for a five year project implementation period during COSOP formulation should be reassessed.
D. IFAD performance			
Policy dialogue	<ul style="list-style-type: none"> • Institute institutional coordination to plan and implement development initiatives. • Create adequate mechanisms to ensure that benefits from sustainable management of natural resources provide income opportunities to the rural poor. • Reduce protection and fiscal policies whose effects reduce the income generated by certain agricultural products and restrict crop diversification. • Search for viable solutions to land tenure issues especially for women and indigenous groups. • Develop instruments for improvement and maintenance of infrastructure in rural areas. • Implement adequate financial services which are accessible to the rural poor. 	<ul style="list-style-type: none"> • IFAD appointed a FPM for Honduras and Nicaragua. At closure the FPM only covered Nicaragua. 	<ul style="list-style-type: none"> • IFAD should increase its country presence so it can participate more actively in policy dialogue in consultation with other donors.
Partnerships	<ul style="list-style-type: none"> • Strengthen partnership with SAG as a main partner for rural development and poverty alleviation. • Deepen partnerships with other donors especially in the context of aid efforts after Hurricane Mitch. 	<ul style="list-style-type: none"> • SAG continues to be IFAD's strongest partner. GOH decision in this regard confirmed during RB-COSOP preparation. • Donor coordination has been strengthened. Formation of the Group of 16 donors and several sub groups. • IFAD presence was heightened through FPM. 	<ul style="list-style-type: none"> • Although SAG continues to be the lead agency, political issues between SAG and PRONADERS hinder adoption of a coherent rural development policy. • Establishment of donor coordination mechanism contribute to alignment but delays in adoption of government policies conspires against better results.

			<ul style="list-style-type: none"> Responsibilities of FPM need to be better defined, their status clarified and operational funds provided.
Portfolio performance	<ul style="list-style-type: none"> Existing portfolio generally performed satisfactorily with room for improvement 	<ul style="list-style-type: none"> Progress in implementation of the PRONADEL project is mostly on target while progress in meeting development objectives is substantially below target. 	<ul style="list-style-type: none"> Need for Government to clarify roles of agencies involved in rural development Need to decentralize implementation of projects. Need to reduce geographic coverage. Need to establish high operational standards at the outset. Need to design impact monitoring systems.

CPE Agreement at completion point

Introduction

Although the evaluation of the IFAD portfolio in Honduras dates from 1996, it seems appropriate to reflect in the preparation of the present COSOP some of the findings of the portfolio evaluation. It must be recognized that this early portfolio evaluation was prepared long time before adoption by IFAD of a framework for evaluation and the requirement for agreements at completion point. The decision to select Honduras as the first Latin American country in which IFAD should analyse and synthesize its experience was arrived at taking into account the importance of rural poverty in Honduras and the relevance of IFAD's experience in the country for the rest of Central America, where IFAD had been financing a considerable number of projects.

In 1979, a Special Programming Mission established the basis for future operations in the country. The following projects were covered by the CPE: (i) Rural Development Program for the Western Region (PRODERO-Loan 028-HO approved in December 1979); (ii) Integrated Rural Development Project of Santa Barbara (PRODESBA-Loan 099-HO approved in September 1982); (iii) Integrated Rural Development Project of Intibucá-La Paz (Loan 203-HO approved in April 1987); and (iv) Rural Development Plan for the Western Region (PLANDERO-Loan 336-HO approved in September 1993). The total original cost of these four projects was approximately: US\$84.7 million, with IFAD contributing approximately US\$34.6 million. The Government of Honduras allocated resources to the projects for an equivalent of 20 per cent of the total cost and other international or bilateral financial institutions (IDB, CABEI, KfW, OPEC, and UNDP) contributed the remainder. As a result of partial loan cancellations, the effective contribution of the Fund was estimated to be approximately US\$24.6 million (DEG 20.7 million).

The COSOP preparation Mission, considering that the CPE had been carried out ten years ago, convened a meeting of staff who had participated in the implementation of projects covered by the CPE and those who participated in the implementation of the new projects which came on stream. The conclusions of the working session are reflected in Section IV below.

II. FINDINGS

The portfolio evaluation concluded that:

Area development projects had played an important historical role in certain areas of the country. However, their influence in the struggle against rural poverty at a national level had been limited. The four projects were area development projects, located in zones of greatest rural poverty as well as in border areas. This enabled them to have positive geo-political effects by acting as social security valves, but they had only a limited effect on increasing earnings for the target population.

Increasing production and productivity had been limited due to a number of factors including: (a) Availability of agricultural technology was overestimated especially for cereals. Increases in production and earnings of the target population had not been up to expectations. Something similar happened with the soil conservation technologies which were advocated. With a few exceptions, these required intensive labour inputs and were therefore not adopted or were not sustainable. The limited agricultural potential of project areas meant that farmers had to dedicate more time to maintenance and had less time for conservation work and **(b) Estimates of agricultural yield and loan disbursements were unrealistic.** Project design assumed that within a five-year period yields will greatly increase and that this will

require loans for the rural poor at levels much higher than those which were actually demanded. One of the reasons for such unrealistic estimates was that traditional economic evaluation techniques were used in the design process. The critical values of the parameters such as the internal rate of return were expected to be similar to those reached in traditional projects, although neither the distribution effects foreseen for this type of project, directed towards fighting rural poverty nor environmental effects were explicitly included.

Working with groups had saved costs and increased coverage but building social capital by supporting new groups was important. Projects working with existing groups showed better results than when groups had to be organised by the projects. However, it was suggested, that projects should also cooperate in organising and gradually training new groups. This should be done not only with a view to using the groups to implement projects but also because the formation of such groups helps in building social capital.

The situation of indigenous people and landless peasants had not been addressed. The projects did not focus their attention on indigenous populations as a target group warranting special attention. The CPE emphasized the need to ensure that new projects involving indigenous populations take into account their local political organisation as well as the implications that their customs and cultural-religious beliefs have in the design and implementation of project activities. Project components were not orientated towards landless populations or towards those who do not hold the title to the land, which represent a significant part of the rural poor. To include the landless population and interventions in the land market could be instrumental in the struggle against poverty.

Too much emphasis was given to placing credit funds. Projects assigned a dominant role to credit in the operational strategy. One of the main indicators used to measure the advance of the projects was the level of placements reached, while other equally important aspects were ignored. Even technical assistance was subjected to credit, which meant that technical assistance as an independent tool for improving the situation of the target population was not fully developed. The fact was not recognised that credit might be neither useful nor necessary for many individuals or organizations

Monitoring and evaluation systems had not performed satisfactorily. Analysis carried out indicated that non-performance resulted from the merger of the monitoring function with the evaluation function within a single administrative unit. These units were requested to be at the same time independent from project management, for the sake of evaluation, and to strongly support project management. These were inconsistent requirements and the actual experience was highly conflictive. Projects did not allow for enough beneficiary participation in the monitoring and evaluation system thus restricting the possibility to incorporate the voice of the rural poor in the implementation process.

Adequate project supervision had not been satisfactory. It was established that supervision had been affected by communication gaps between IFAD and the Cooperating Institutions.

III. RECOMMENDATIONS

The CPE made a number of recommendations. The most significant include the need to:

- Undertake careful analysis of macro-economic and sector policies with the view to opening up dialogue on rural development policies with Government and other stakeholders.

- Open up a dialogue on rural development policy with the Government and other stakeholders for developing programmes and projects with greater impact at national level.
- Consider supporting national programmes focused on specific questions such as management of small watersheds, land acquisition by the rural poor, indigenous populations, rural women, generation and transfer of technology, agro-forestry and grazing systems and rural financing.
- Clarify and deepen the definition of beneficiaries as these are a heterogeneous group with very different levels of access to means of production (land, knowledge, capital, labour) and they all have different needs, even though they all fall under IFAD's definition of rural poor. The different types of beneficiaries for each project should be made explicit including a gender differentiation. The strategies and activities proposed for each type of beneficiary should be clearly established indicating who will benefit from which type of action and how benefits will be shared among the target population. The needs of ethnic communities should be explicitly identified in all documents.
- Take explicit measures to address the needs of landless peasants as there is a large demand for land on the part of the landless and that successful direct buying mechanisms have been set up with the support of local intermediaries.
- Widen the dimension of technical assistance so as to include technical support for management and administration of small agricultural industries and agro-industries as well as for product marketing and for improved vertical integration in productive activities.
- Reflect more adequately the needs of a rural financing system and envisage mobilizing rural savings and giving greater sustainability to institutions which give credit services, thereby increasing their responsibilities to include a wide range of rural financing services.
- Improve analysis of how peasant markets work and address commercialization of agricultural and other products which are a bottleneck for development strategies based on increased production and income generation.
- Study agricultural diversification based on the lack of development potential for basic cereals and give special consideration to non-agricultural income generation activities such as rural micro enterprises and other off-farm initiatives.
- Use innovative social cost benefit analysis including poverty alleviation effects rather than conventional yield and credit demand estimates.

IV. RECENT FINDINGS AND CONCLUSIONS

During the working session organized by the COSOP Mission participants addressed most of the issues earlier highlighted by the CPE and deepened the understanding on identified issues and made additional suggestions.

Concerning **technology transfer issues** participants concluded that there are agricultural technologies available but that these are not suited to specific types of producers and that in the future these technologies should be disseminated and introduced based on the characteristics of the target populations taking into account their physical, social, natural, human and financial assets. It was recommended that service providers such as Rural Development Enterprises (EDR) need constant training and updating in production techniques, extension methodologies and communications for development.

In relation to **credit and financial services issues, participants** concluded that IFAD has been an innovator by evolving from agricultural credit to other approaches including

saving and loans groups such as rural savings and loans associations and local development funds. Notwithstanding, suggestions were made to introduce stronger advisory services and monitoring and evaluation mechanisms to avoid negative effects such as paternalism, non-payment culture and organizational weaknesses. It was suggested that rural savings and loans associations should be linked to the formal banking system and be subject to supervision. The remittances issue, which has become increasingly important since the CPE, should be taken into consideration and ways should be found to promote their use for savings and productive investment.

With respect to **land tenure issues** participants indicated that IFAD's involvement has been limited to facilitating the legal requirements for land registration. However, IFAD should consider more comprehensive interventions to include land purchasing and social and productive development of landholders. On **marketing** support participants stated that IFAD's involvement is limited and should be further developed. Regarding **non-agricultural employment**, there was agreement on the need to include specific actions during project design so as to include support for rural tourism, processing, transformation and services.

The working session paid considerable attention to **project approaches sustainability and knowledge management**. Participants suggested that projects should be implemented in concentrated geographical areas and with clearly identified target groups involving a limited number of families at lower costs and longer implementation periods. In terms of sustainability participants indicated that this should be reflected in the design and reaffirmed during the first year of project implementation jointly with a territorial project management group which should include beneficiaries, local governments, research groups and the local public sector entities. Participants stressed the need for IFAD to strengthen its knowledge management approach and establish deeper linkages between projects operating in the same country and the sub-region.

The working session discussed in depth **targeting, project management, monitoring, evaluation and supervision issues**. Participants stated that **gender aspects** were incorporated in the PROSOC project successfully and progress was achieved with important changes taking place with respect to the participation of rural women especially in relation to managing financial resources and micro-enterprise development. Experience gained should be systematized and lessons learned should be taken into account in the design of new interventions. With respect to **indigenous groups and rural youths**, it was concluded that although projects include indigenous groups there has been no differentiated treatment in addressing their specific needs and youths have not been a specific target group. Participants recommended that projects should include staff specialized in indigenous issues in order to consider their needs in project implementation and that actions should be taken so as to ensure that youths may obtain gainful employment in the community. Concerning **targeting the poor**, participants indicated that IFAD projects in Honduras have operated in areas with high poverty levels. However, it was pointed out that in these areas there are groups who are less poor and consequently projects should consider both groups and develop alliances which can benefit both the poor and the less poor. With respect to the landless, participants concluded that experience has shown that these groups do not improve their conditions simply by land adjudication but that other alternatives should be identified such as employment and income generation activities and the provision of social and productive services. Working with **rural organizations and organizational capacity issues** was amply debated. Participants concluded that providing investment support to weak organizations leads to failure of ventures undertaken benefiting only a few members. Building organizational capacity requires time and in many instances projects come to an end before participating organizations can be consolidated. Participants recommended that new projects should take advantage of the organizational base already developed by earlier IFAD-funded interventions not only among project beneficiaries but also among professionals who have participated in earlier interventions. Rural organizations should

be inserted in the development dynamics of local governments by strengthening their involvement in policy decisions that affect them.

On **institutional arrangements**, participants recommended that particular care should be taken in selecting where to place the project's implementation unit as putting it under SAG will identify it with strictly agricultural development leaving out other issues in a more rural development approach which in the case of Honduras fits within PRONADERS. Finally, on **monitoring, evaluation and supervision** participants stated that baseline information must be gathered at the outset with few indicators which can be easily measured. It will be necessary to determine how poverty levels would be measured either by the Unmet Basic Needs or income methods and impact indicators should go beyond increased income to include improved knowledge and attitudinal or behavioural changes. IFAD should establish much closer links with projects it funds to ensure timely and effective supervision.

Key File 1. Rural poverty and agricultural/rural sector issues

Priority Area	Affected Group	Major Issues	Actions Needed
Rural poverty	<ul style="list-style-type: none"> Landless peasants, indigenous groups and women headed household 	<ul style="list-style-type: none"> Low human capital due to limited access to educational and health services Poor or non existent water and sanitation infrastructure Lack of electricity and other rural infrastructure Dependency on agricultural activities and outcomes 	<ul style="list-style-type: none"> Invest in health and education services Implement conditional cash transfer programs for the poorest Invest in rural infrastructure Expand opportunities for off-farm income generation activities
Agriculture /livestock	<ul style="list-style-type: none"> Small-scale agricultural producers and especially those involved in hillside cultivation. Medium sized producers and extended livestock ranchers 	<ul style="list-style-type: none"> Low profit margins Extensive livestock breeding High land fragmentation (<i>minifundios</i>) Limited area under irrigation Natural disasters Difficulties in accessing international markets Increased import of foodstuffs Lack of competitiveness Low dairy productivity Limited capacity of plant and animal health services and inspection 	<ul style="list-style-type: none"> Establish food and agricultural productive chains Fund research and technological development Consider non-agricultural income generating activities Support initiatives in areas with potential such as cheese making, horticultural production, shrimp farming, organic and ethnic products among others Ensure land tenure Expand irrigated areas Design natural disasters prevention and mitigation measures Reduce bottlenecks for competitiveness Implement livestock improvement projects Strengthen animal and plant health systems
Fisheries and aquaculture	<ul style="list-style-type: none"> Community organized fishermen groups Artisanal fishermen 	<ul style="list-style-type: none"> Lack of regulatory frameworks and enforcement to limit over exploitation Poor technologies used by artisanal fishermen Inadequate policing to avoid fishing piracy 	<ul style="list-style-type: none"> Strengthen regulatory frameworks and enforcement Provide support to artisanal fishermen to acquire new technologies

...continuation Key File 1

Priority Area	Affected Group	Major Issues	Actions Needed
Land	<ul style="list-style-type: none"> All farming groups especially landless peasants, indigenous groups, rural women and agricultural labourers 	<ul style="list-style-type: none"> Strong demand for land Lack of financial resources for land purchasing INA technical, legal and financial limitations Strong land concentration Limited land conservation projects and programs 	<ul style="list-style-type: none"> Modernize the property registry and land cadastre Expand the experience gained by PACTA to indigenous groups, peasant farmers within the reformed sector and rural women Revise the legal framework Complete and update cadastral registries Complete titling of indigenous community lands
Water and irrigation	<ul style="list-style-type: none"> All farming groups especially landless peasants, indigenous groups, rural women and agricultural labourers 	<ul style="list-style-type: none"> Lack of water conservation strategies Inexistent control of water pollution by use of pesticides, human and animal wastes Lack of water usage arrangements Competition for water usage Lack of functioning organized water user groups 	<ul style="list-style-type: none"> Deepen collaboration with SERNA as the lead agency for management of watersheds Implement a National Strategy for Integrated Watershed Management Promote mechanism for payment for environmental services Facilitate participation of the private sector in valuing environmental services
Forests	<ul style="list-style-type: none"> Rural communities and indigenous groups 	<ul style="list-style-type: none"> Deforestation aimed at expanding the agricultural frontier High use of firewood for cooking Forest fires Illegal felling Use of slash and burn methods 	<ul style="list-style-type: none"> Implement and finance preparation of management plans Implement reforestation programs Design and implement a program to control forest fires Strengthen collaboration between SERNA, COHDEFOR and SAG's PRONAFOR Undertake a diagnosis of the forestry industry and localising of existing sawmill and location and availability of forest reserves Implement carbon sequestration initiatives
Rural finance	<ul style="list-style-type: none"> Small-scale and medium sized producers 	<ul style="list-style-type: none"> Access to formal banking system limited Incipient informal credit system Lack of regulatory framework and clarity of alternative financial services systems 	<ul style="list-style-type: none"> Design a strategy and instruments to strengthen the non traditional rural financing system Adjust or modify the legal framework Consider introduction of agricultural insurance
Institutional/organizational	<ul style="list-style-type: none"> All concerned groups 	<ul style="list-style-type: none"> Lack of institutional coordination 	<ul style="list-style-type: none"> Support implementation of proposed institutional transformation of sector agencies Improve monitoring and evaluation methodologies

Key File 2. Organizations Matrix (strengths, weaknesses, opportunities and threats [SWOT] analysis)

Organization	Strengths	Weaknesses	Opportunities	Threats
Enablers				
Secretariat of the Presidency	Coordinates, consultations, implementation and reporting on the PRS Incorporates the Technical Assistance Unit responsible for monitoring and evaluation of the PRS Insures liaison with donor community	Difficulties in updating the 2001 PRS and reaching agreement with civil society and government entities Lack of operational capacity to ensure adequate monitoring and evaluation of agreed upon indicators	Strong commitment by the donor community to align interventions with the PRS Deepen the understanding of management for results	Willingness on the part of government authorities to take into account recommendations by civil society and to institute an accountability framework
Ministry of Finance (SEFIN)	Responsible for the preparation of the budget and processing and approval of external funding Influences decisions at Cabinet level	Limited trained personnel Concentration on the control function Limited understanding and involvement in funding of initiatives in the rural sector Lack of staff and resources to monitor expenditures at the field level Bureaucratic procedures for disbursement and excessive complexity for processing disbursements	Ensure allocation of resources and targeting towards channelling resources in the context of the PRS Proper implementation of the Financial Administration Integrated System (SIAF) Deepening implementation of a monitoring module for expenditures by implementing agencies Provision of accurate information to government and the donor community Capacity to negotiate additional resources	Reluctance on the part of government entities to accept new financial and administrative management procedures. Political pressure to expedite disbursement without accountability for past expenditures
Ministry of Home Affairs (Gobernacion)	Implements projects and programs in favour of indigenous groups and populations of African descent Leadership role in territorial planning and development as well as in local development	New spheres of activities will require considerable investment in human resources and new structures Evaluation of investments at the local level is limited due to lack of proper instruments, staffs and logistics.	Commitment on the part of government authorities to pursue decentralization and local development in the context of the PRS provides a further opportunity to address territorial development and the plight of indigenous and Afro Hondurans	Resistance on the part of political groups to further a decentralization process

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Organization	Strengths	Weaknesses	Opportunities	Threats
	<p>Responsible for implementation of donor assisted projects and programs in areas of its competency</p> <p>Experienced staff in relevant subjects</p> <p>Field presence through governors who preside department development committees and influence local governments.</p>		<p>Possibility to channel resources from other government sectors in order to further participatory mechanisms and decentralization by local governments.</p>	
Ministry of Natural Resources (SERNA)	<p>Responsible for conservation of biodiversity and fulfillment of obligations resulting from international environmental agreements and conventions</p> <p>Addresses soil and water issues and grants environmental impact permits for all economic activities</p> <p>Ensures compatibility of agricultural activities and the environment and management of natural resources</p>	<p>Limited resources and field presence</p> <p>Scarce influence in policy decisions</p> <p>Limited enforcement capacity</p>	<p>Contribute towards adoption of policies on sustainable development and management of natural resources</p> <p>Participate in territorial planning and development approaches</p> <p>Link activities with SAG on shared responsibilities</p> <p>Participate in joint public information projects and programs</p>	<p>Lack of priority given to pursue a process of reorganization.</p> <p>Insufficient attention given to complying with international treaties and conventions.</p> <p>Political pressure from economic groups may hinder it from fulfilling its mandate.</p> <p>Local governments may not incorporate environmental considerations as required by law and for which municipal environmental units have been created.</p>
Ministry of Agriculture and Livestock (SAG)	<p>Responsibility to design and implement agricultural and forestry sector policies linked to PRS implementation and specific targets set</p> <p>Leadership role in consensus building table including government authorities, donor community, private sector and farmer organizations.</p> <p>Leadership role in concerting actions by public and private entities.</p>	<p>Services provided are not aligned with the demand by producers</p> <p>Investments do not result in better output or incomes</p> <p>Institutional weaknesses, contradictory approaches and isolated actions.</p> <p>Limited regulatory enforcement role.</p>	<p>Consensus building mechanism for policy implementation exists</p> <p>Possibility to implement the Strategic and Operation Plan 2006 to 2010 and the Gender Equity Policy for the agricultural sector</p> <p>Possibility to develop sector and sub sector wide approaches</p>	<p>Dependency on political broad based support to implement actions outlines in the Strategic and Operational Plan.</p> <p>Conflicting interest of other agencies which form part of the agricultural sector establishment.</p> <p>Changes in overall sector policies and institutional and organizational arrangements.</p>

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Organization	Strengths	Weaknesses	Opportunities	Threats
		<p>Overlapping of mandates with other government entities</p> <p>Each agency within the agricultural sector system has own by-laws</p> <p>Limited analytical, research and planning capacities.</p> <p>Concentration on solving emerging problems rather than confronting structural issues and poor focus on implementation of sector development projects</p> <p>Lack of monitoring and evaluation capacity and coordination mechanisms with other relevant agencies.</p>	<p>Inclusion of sector policies in the context of local development and decentralization</p>	<p>Possibility that donors channel their support to other participants in the sector directly disregarding SAG roles.</p>
Service providers				
National Agricultural Development Bank (BANADESA)	<p>Long standing tradition in serving small/scale producers in rural areas</p> <p>Gradually expanding its coverage of national branches in all of Honduras</p>	<p>High levels of politicization ,</p> <p>High operating costs and inefficiencies</p> <p>Limited logistical capacity to address the needs of rural poor farmers</p>	<p>Restructuring process and strengthening measures being proposed and discussed may lead to better service</p> <p>Possibility of obtaining additional funding from government</p>	<p>Continued policies that encourage non payment</p> <p>Political influences to benefit richer farmers abandoning services to smaller rural peasants.</p> <p>Diminished resources allocated by the State</p> <p>Limited capacity to mobilize savings</p>

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Organization	Strengths	Weaknesses	Opportunities	Threats
National Agricultural Institute (INA)	<p>Experience in working with agrarian reform peasant groups in registering and securing land titles</p> <p>Presence in rural areas and within vulnerable groups</p> <p>Relationships with agrarian leaderships and capability to influence decisions</p>	<p>Inexistent land for expropriation and distribution to the rural poor</p> <p>Weak structure and poor management procedures resulting in low efficiency levels</p> <p>Low performance by staff due to political affiliations and union membership.</p> <p>Limited financial and logistical support</p>	<p>New policies and management approaches being proposed as part of the restructuring of SAG</p> <p>Possible participation in territorial approaches and ordering</p> <p>Willingness by international donors to assist in institutional strengthening and addressing land tenure issues in the agrarian reform sector.</p>	<p>Unwillingness on the part of government authorities to address the issues related to the agrarian reform sector which is at the core of the organization's mandate.</p> <p>Use of market instruments for land adjudication which may leave the rural poor out</p> <p>Lack of clarity in terms of responsibilities and functions especially with the Property Institute</p>
National Program for Sustainable Rural Development (PRONADERS)	<p>Established by law which gives it the responsibility to harmonize rural development policies and strategies and to promote participation of rural communities in their development</p> <p>Legal and administrative mandate to channel SEFIN resources for projects in favour of rural communities</p> <p>Capacity to strengthen rural financial services</p>	<p>Does not fully participate in drafting new sector policies or in pursuing Sector Wide Approaches</p> <p>Lacks field presence which results in lack of coordination with projects and programs of a multi-sector focus at the local level</p> <p>Limited capacity for monitoring and evaluation</p>	<p>Possibility to clarify its role in the context of new sector policies and define its role</p> <p>New projects being discussed with funding agencies</p>	<p>Reluctance on the part of several funding agencies to contribute towards projects implemented by it.</p> <p>Difficulties in reaching consensus with other agricultural sector agencies</p>
National Women's Institute (INAM)	<p>Improved operational capacity due to reorganization</p> <p>Developed a Gender Equity Policy for the Agricultural Sector</p> <p>Women's units have been established at local government level</p>	<p>Organizational restructuring dependent on policies of the new Administration</p> <p>Due to its size it has limited political negotiating capacity.</p> <p>.Limited resources to ensure government department implement gender cross cutting concerns and supervise adoption of gender measures</p>	<p>Deepen approaches already introduced in favour of rural women in accessing credit, participation, and education</p> <p>Possibility to influence government decisions and donor contributions towards advancement of women</p>	<p>Few concrete measures and limited interventions only base don political discourse</p> <p>Limited understanding by decision makers of gender dimensions</p>

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Organization	Strengths	Weaknesses	Opportunities	Threats
Client Organizations				
Local Governments	Budgetary allocations from the central government Independent financial management Have a strong umbrella organization in the Association of Honduran Municipalities (AMHON) with strong political influence	Dependency on outside non self generating funding limits implementation of activities Limited coordination with other national government projects and programs Limited technical capacity and monitoring and evaluation mechanisms	Clear targets and available resources to support local governments provide an opportunity to further decentralization together with political will on the part of the donor community.	Use of local governments for political purposes Lack of transparency in the allocation of resources which may result in cancelling disbursements Poor technical judgment and politicization of investment and selection of beneficiaries
Non Governmental Organizations (NGOs)	A great number of NGOs deal with poverty issues in urban and rural areas with growing presence in the later	Too narrow focus resulting in fragmented interventions and limited impact in small geographical areas Lack of coordination with other efforts Slanted interventions depending on conditions imposed by certain organizations of a religious nature	Possibility to participate in concerted poverty reduction efforts under PRS country ownership	Open competition among NGOs to serve similar clients and areas of specialization
Farmer organizations	High representational character Long lasting experience in addressing membership concerns	Concentration on vindictive demands Limited understanding on impact of policies which may affect their membership	Possibility to engage in negotiations and dialogue Increase their credibility and impact	Government interference or indifference vis-à-vis true demands

Key File 3. Complementary donor initiative/partnership potential

Donor/Agency	Programmes and projects	Status	Complementary /Synergy potential
World Bank (IBRD)	<ul style="list-style-type: none"> • Land Access Pilot Project (PACTA). • Development of the Copan Valley. • Rural Competitiveness • PATH • Nuestras Raices • Forestry and Rural Productivity 	The IBRD has recently approved its new Strategy 2006-2010. The strategy includes a new operation related to competitiveness of the rural economy.	High complementarities and synergy potential with the objectives of the COSOP especially in relation to furthering the competitiveness of the rural sector
Inter-American Development Bank (IDB)	<ul style="list-style-type: none"> • Reactivating the Rural Economy (RERURAL). • Management of Natural Resources Program (MARENA). 	The IDB 2003-2006 Strategy is presently being revised. It is expected that the new Strategy will be finalized by mid-2007.	Synergy potential in providing support to indigenous groups and development of identity products and sustainable tourism.
Central American Bank for Economic Integration (CABEI)	<ul style="list-style-type: none"> • PRONADEL I and II. Co financing of the IFAD funded project. 	The Bank's present Strategy covers 2005-2007. Cofinanced project with IFAD have been extended till December 2009.	High complementarities. CABEI is a co financier of IFAD operations. Expressed interest in financing a new operation under this COSOP
United Nations Development Program (UNDP)	<ul style="list-style-type: none"> • Biodiversity in Priority Areas. • Poverty Reduction and Gender in Western Honduras. • Support to the Administration in Rural Areas (PAAR). 	A system-wide strategy is covered by the United Nations Development Assistance Framework (UNDAF) 2007-2011	Synergies exist as UNDP provides administrative support for implementation of IFAD-funded project in the country.
United Nations Food and Agriculture Organization (FAO)	<ul style="list-style-type: none"> • Support to PACTA implementation. • Sustainable Development and Rural Development in Hillside Agriculture. • Food Security Program (PESA). 	(UNDAF) 2007-2011	Synergies exist in terms of the FAO involvement in PACTA and its interest in hillside agriculture
World Food Program (WFP)	<ul style="list-style-type: none"> • Assistance and Recovery Program. 	(UNDAF) 2007-2011	Complementary activities exists as WFP provides assistance to the poorest among the poor ensuring food security
Commission of the European Union	<ul style="list-style-type: none"> • Support to small and medium sized producers in Olancho (PROLANCHO). • Food Security Program. 	The CEU is presently preparing a new Strategy for the 2007 -201.	Possible synergies are dependent on the strategic approach to be adopted which could include the use of SWAPs.

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Donor/Agency	Programmes and projects	Status	Complementary /Synergy potential
Canada	<ul style="list-style-type: none"> • Reduction of Rural Poverty. • Strengthening of rural women's groups. • Support for DINADERS. 	Present strategy until 2008. Honduras is a partner country for Canada in Latin America.	Strong synergies in the relevant projects implemented under the PRO MESAS umbrella program. Collaboration with IDRC is also possible.
Finland	<ul style="list-style-type: none"> • Local Development for Poverty Reduction in Northern Copan. 	Finland's strategy is covered by the country's ODA policy adopted in 2004.	Complementary activities could be sought under Finland's program based on the Kyoto Protocol.
Germany	<ul style="list-style-type: none"> • Rural Development Program in Santa Bárbara. • Social Forestry Program. • Management of Natural Resources in Rio Platano Biosphere Reserve). 	Germany's strategy follows the decision of the German Government to name Honduras as a priority country for assistance in 2001.	High complementarities in the context of the PRONADEL Project in connection with activities in the Mosquitia Region.
Japan	<ul style="list-style-type: none"> • Support for the production of foodstuffs. • Agricultural Development Training Centre. 	Japan's strategy for Honduras, implemented by JICA, is covered by its ODA Charter adopted in 2003.	Synergies could be sought under a possible SWAP for improving agricultural research and extension program.
Spain	<ul style="list-style-type: none"> • Support for implementation of the Food Security Program executed by FAO. 	Spain's cooperation with Honduras is implemented under AECI's 2005-2008 Strategy.	Synergies under implementation of food security projects and programs.
Switzerland	<ul style="list-style-type: none"> • Sustainable Agriculture in Hillside Areas in Honduras (PASOLAC). 	Strategy covers the 2004-2007. Activities will be phased out in 2007.	Possible complementarities and synergies in the case of the implementation of an agricultural SWAP.
United States of America	<ul style="list-style-type: none"> • Rural Development Project. 	Main assistance is provided under the Millennium Challenge Corporation's compact signed in 2005 for a period of five years.	Although the target group for this large investment project which includes agricultural training and extension in horticulture, provision of financial services and building of rural roads is medium sized farmers there some synergy as surrounding farmers who are IFAD's target group could potentially benefit.

Key File 4. Target group identification, priority issues and potential response

Typology	Poverty Level and Causes	Coping Actions	Priority Needs	Support from Other Initiatives	COSOP Response
Extreme poor rural households	Extreme <ul style="list-style-type: none"> • Less than US\$1 a day • Landless or with less than 1 hectare in hillside areas • Affected by topographic features (hillsides) and irregular rain fall • Limited employment opportunities • Large families (6 members) • Illiteracy, poor health • Do not participate in community level organizations • Large periods of idle time 	<ul style="list-style-type: none"> • Search for temporary employment during harvest time (coffee and land clearance) • Cultivation of basic grains • Female youth migration for domestic service 	<ul style="list-style-type: none"> • Employment • Food assistance • Health, nutrition support • Access to vocational training 	<ul style="list-style-type: none"> • Support by conditional cash transfers • Technological vouchers including provision of seeds and fertilizers by SAG • WFP food-for-work during natural disasters • Food transfers during emergencies 	<ul style="list-style-type: none"> • Technical assistance for ensuring food safety by improving cultivation and housing conditions • If beneficiaries organized provide organizational support • Use of grant mechanism through rural savings and loans associations. • Other projects may enable access to land and micro-credit
Relatively poor small scale farmers	Vulnerable <ul style="list-style-type: none"> • Less than 5 hectares in hillside areas • Approximately US\$2.50 a day • Lack of irrigation • Cultivated crops for food security basic grains • Lack access to bank credit and NGO microfinance • Low profitability of farming • Lack access to markets. 	<ul style="list-style-type: none"> • Migration • Limited livestock • Transport, horses bullocks • Small businesses • Savings 	<ul style="list-style-type: none"> • More advanced agricultural technologies • Higher training needs • Small business promotion • Health and education • Organizational capacity building • Access to markets 	<ul style="list-style-type: none"> • Limited government support from SAG Agricultural extension programmes • NGO support ´to micro-credit programmes 	<ul style="list-style-type: none"> • Agricultural technology support. • Financial and non financial services • Local initiative investments
Small scale farmers/ entrepreneurs	<ul style="list-style-type: none"> • Low productivity • Access to credit with high interest rates • Outdated technologies • Weak market linkages 	<ul style="list-style-type: none"> • Diversified production • Provision of services • Some livestock • Have organizational capacities 	<ul style="list-style-type: none"> • More advanced technologies • Access to credit • Marketing infrastructure 	<ul style="list-style-type: none"> • Larger multilateral and bilateral donor projects • Bilateral NGO projects 	<ul style="list-style-type: none"> • Funding local initiatives • Assistance in leveraging other services • Provision of information and linkages to markets • Provision of public goods

