

MODERNIZATION OF AGRICULTURAL TECHNOLOGY SERVICES

(HO-0119)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: Republic of Honduras

EXECUTING AGENCY: Dirección de Ciencia y Tecnología Agropecuaria [Agricultural Science and Technology Directorate] (DICTA)

AMOUNT AND SOURCE: IDB: US\$15 million (FSO)
Local counterpart funding: US\$ 2 million
Total: US\$17 million

FINANCIAL TERMS AND CONDITIONS: Amortization period: 40 years including a 10-year grace period
Disbursement period: 5 years
Interest rate: 1% during the grace period and 2% for 30 years
Inspection and supervision: 1%
Credit fee: 0.5%

OBJECTIVES: The project's objective is to develop the competitive potential of Honduran agricultural production by boosting the sector's productivity and improving the quality of its products. To attain this objective, the project proposes to build up the agricultural technology services market in response to demand by producers, and to promote the services offered by private entities.

The specific goals are to: (i) support the new institutional framework for the generation and transfer of technology; (ii) improve the efficiency, profitability, and competitiveness of farm production; (iii) promote diversification into nontraditional export crops; and (iv) increase the productivity of the staple grains subsector.

At the end of the project, a significant increase should be achieved in value added per hectare in "other crops", which include nontraditional farm exports, from 8% at present to over 10%. Increases in the current yield of staple grains on the order of over 50% are also expected. The specific goals appear in the logical framework (Annex II-1).

DESCRIPTION: The project consists of two components:

Consolidation of the national system for agricultural research and technology transfer (SNITTA). This component supports the consolidation of the new institutional structure for agricultural technology generation and transfer (ATGT) and strengthens its management capacity. It will help to consolidate the functions of the Agricultural Science and Technology Directorate (DICTA) to enable it to support ATGT activities, under a structure in which such functions would consist of promotion, regulation, and supervision of the services market, while the operating and administrative functions and those involving technical project supervision will be performed by the private sector. This component is comprised of three subcomponents: (a) strengthening of DICTA; (b) information, dissemination, and promotion program; and (c) training for researchers and extension workers.

Competitive fund for financing agricultural technology generation and transfer projects (FUND) (US\$14.2 million). The FUND will be SNITTA's main financing mechanism, bringing together ATGT institutions and acting as a catalyst for public and private funding. It will be the instrument for establishing a system that responds to producers' demands through services delivered competitively by private agents. The resources of the FUND may be used to finance proposals in any of three subcomponents: (i) technology generation; (ii) technology transfers; and (iii) training for researchers and extension workers.

A board of directors, which will include members from the public and private sectors and be assisted by a support unit, will be responsible for the FUND's operation. A project administrative unit (PAU) will be responsible for the operational aspects of the FUND, and will be a specialized agency or nongovernmental enterprise contracted by DICTA through competitive bidding. The PAU will establish an account to administer the financial resources for this component, after receiving authorization from the board of directors of the FUND and the Bank. In the short to medium term, the FUND, with its board of directors and the PAU, may evolve institutionally into a nonprofit foundation with its own corporate identity, and with joint public and private participation.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environment Committee, at its meeting of March 20, 1996, classified this as a Category III operation. The environmental summary was approved on August 6, 1996.

BENEFITS:

The project proposes to transform the agricultural technology generation and transfer system, based on active participation by the private sector in defining and delivering related services. This process of change will make for the efficient reallocation of resources into products with greater comparative advantages, thereby supporting the positioning of Honduran farmers on international markets, which will raise their incomes. Consumers will also benefit from efficient production, particularly in staple grains and livestock, through lower prices. The environment will also benefit through better management of natural resources.

RISKS:

The main risk of the project lies in the weakness of the technology services market owing to the government tradition of offering services to farmers free of charge. To motivate farmers to participate in the new system, DICTA will conduct project promotion campaigns and farmers will participate in periodic reviews of the operations of the FUND. It has been established that potential service demand and supply are sufficient to launch the project.

Another risk is the possible impact of the recent temporary measures adopted by the government in the agricultural sector. These measures are characterized by modest government intervention in the marketing of corn and beans, and the creation of funds to support the financing by commercial banks of staple grain production and marketing. Until now, this government intervention has been on a very small scale. These activities are considered temporary and do not significantly affect the technology adoption process, the impact of which is medium- and long-term.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The operation will be carried out under the frame of the Agricultural Modernization and Development Act and the structural reforms carried out by the government since 1990. Dialogue with Honduran authorities has permitted continuous monitoring of the process of implementing the reforms. The Bank has supported consolidation of this process through two sector adjustment operations and the new State reform program.

The proposed project is consistent with the govern-

ment's current strategy and policy for the agricultural sector, which place priority on increasing production and productivity and diversifying and developing nontraditional agricultural exports. The project is also consistent with the Bank's country strategy to promote human capital development and increase the productivity of investments.

**POVERTY-TARGETED
INVESTMENT:**

Honduras is one of seven member countries of the Bank with a poverty rate of over 50%. Estimates of the family income of small and medium-sized farmers who could potentially benefit from the project suggest that at least 89% of the target population of 76,300 families lives below the poverty line. Accordingly, under the guidelines of the Bank's Eighth Replenishment, the project is focused on the low-income population.

**PROCUREMENT
CEILINGS:**

International competitive bidding will be required for procurements of goods and services of US\$250,000 and over.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

The borrower, through DICTA, is required to present the following to the Bank's satisfaction:

As a condition precedent to the first disbursement of the loan, evidence that: (a) the board of directors of the FUND has been established and begun to operate (paragraph 3.24); (b) DICTA has contracted the PAU, following procedures agreed to in advance with the Bank (paragraph 3.23); (c) the FUND's board of directors has adopted and implemented the operating regulations (paragraph 3.27); and (d) an account has been opened in a commercial bank for project fund management (paragraph 3.26).

As a condition precedent to the first disbursement: (a) for the FUND component, DICTA has submitted, to the Bank's satisfaction, guidelines for project preparation, including environmental feasibility and the related monitoring system (paragraph 3.25); and (b) for the training and professional development subcomponent, evidence that: the regulations for the DICTA training program have been prepared and presented (paragraph 3.22).

Within six months after the operation has been declared eligible for disbursements, the following is to be presented to the Bank's satisfaction: the report by the consultant hired to update the national agricultural technology generation and transfer plan (paragraph 3.8).

During the project and prior to August 31 of each

year, DICTA will be required to present to the Bank the annual operating plan for the following year. Based on those plans, in the second and fourth years DICTA and the Bank will jointly evaluate the adjustments to be made in project execution (paragraph 3.20).

The loan contract will also include the Bank's standard clauses relating to auditing, progress reports, inspection, and procurement.