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HONDURAS

FY 2011–2015 Multi-Year Strategy

U.S. Government Document

The Feed the Future (FTF) Multi-Year Strategies outline the five-year strategic planning for the U.S. Government's global hunger and food security initiative. These documents represent coordinated, whole-of-government approaches to address food security that align in support of partner country priorities. The strategies reflect analysis and strategic choices made at the time of writing and while interagency teams have formally approved these documents, they may be modified as appropriate.

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ABBREVIATIONS AND ACRONYMS

ADS	Automated Directives System
CARSI	Central America Regional Security Initiative (USG)
CAS	Country Assistance Strategy (USG)
CGIAR	Consultative Group on International Agriculture Research
CIP	Country Investment Plan
CRSP	Collaborative Research Support Programs
DCA	Development Credit Authority
DG	Democracy and Governance
DHS	Demographic Health Survey (GOH)
DLI	Development Leadership Initiative
ECLAC	Economic Commission for Latin America (UN)
ECON	Economic Section (U.S. Embassy Tegucigalpa)
ECPA	Energy and Climate Partnership of the Americas
EEB	Bureau of Economic, Energy and Business Affairs (USG)
EG	Office of Economic Growth (USAID/Honduras)
EGAT	Bureau for Economic Growth, Agriculture, and Trade (USAID)
ENDESA	National Demographic and Health Survey (GOH)
FFP	Food for Progress
FSIP	Food Security Implementation Plan (USG)
FTE	Full Time Equivalent
FTF	Feed the Future
GDA	Global Development Alliance (USAID)
GDP	Gross Domestic Product
GOH	Government of Honduras
IFPRI	International Food Policy and Research Institute (CGIAR)
IMF	International Monetary Fund
INE	National Statistics Institute (GOH)
IPM	Integrated Pest Management
IQC	Indefinite Quantity Contracts
IR	Intermediate Result
M&E	Monitoring and Evaluation
MCC	Millennium Challenge Corporation (USG)
MCH	Maternal and Child Health
MDG	Millennium Development Goal (UN)
MOH	Ministry of Health
MSME	Micro, Small and Medium Enterprises
NGO	Nongovernmental Organization
PIO	Public International Organizations
PMP	Performance and Management Plan
RAISE	Rural Agricultural Income and Sustainable Environment
SME	Small and Medium Enterprises
SPS	Sanitary and Phytosanitary
ULAT	Local Technical Assistance Unit (USAID)
UNDP	United Nations Development Program
US	United States of America
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
USG	United States Government

I. INTRODUCTION

Honduras has been selected as a focus country for the U.S. Government's Global Hunger and Food Security Initiative, known as the Feed the Future (FTF) Initiative. This Honduras FTF Strategy describes the planned approach to implementing this initiative in Honduras over the next five years. The Strategy is based on over 18 months of analysis, consultation and guidance from the FTF Initiative's leadership in Washington, DC. Key incremental products in this process were the FY 2010 Honduras FTF Implementation Plan and the Honduras FTF Strategic Review Presentation, both of which were reviewed by the U.S. Government (USG) Inter-Agency and are available publicly on the Feed the Future Initiative website (www.feedthefuture.gov). This strategy builds on these previous FTF products.

FTF is a whole-of-government initiative that leverages the capacities of a range of relevant U.S. Government agencies. It is important to note that this Honduras 5-year FTF Strategy is a supplemental strategic document to the [2009-2013 Country Assistance Strategy \(CAS\)](#) – the whole-of-government assistance framework for the USG in Honduras. The U.S. Agency for International Development (USAID) is the Initiative's lead agency, both globally and at the country level. Accordingly, this Strategy is also supplemental to USAID's approved Strategic Results Framework which, as required under USAID programming regulations (i.e. Automated Directives System), details specific objectives and intermediate results for programming under the CAS.

In November 2010, USAID signed a new 5-year Assistance Agreement with the Government of Honduras. The Agreement provides the bilateral basis for the implementation of all USAID Economic Growth programs in Honduras from 2009-2013. All USAID programs to implement the Honduras FTF Strategy, with the exception of existing health programs being leveraged for the FTF Initiative, will be awarded under this Economic Growth Assistance Agreement.

This Strategy is organized into five sections. The first section, on Development Opportunities and Challenges, contains the Country Context, a summary of current relationships among the USG, the Government of Honduras (GOH), and the international donor community in Honduras pertaining to food security. The first section also lays out the analysis that led to the key strategic choices that the USG has made in order to have the greatest impact on extreme poverty and chronic malnutrition in Honduras. The second section presents how the Global Feed the Future Strategic Framework will be applied and implemented in Honduras. The third section identifies Core Investment Areas including current USG procurement plans and a summary of planned GOH and donor investment levels. The fourth section presents the Monitoring and Evaluation Plan for this strategy. The fifth section addresses current USG Financial and Management Planning.

2. DEVELOPMENT CHALLENGES AND OPPORTUNITIES

2.1 COUNTRY CONTEXT

2.1.1 Foreign Policy Imperative

Honduras recently emerged from its worst crisis in 25 years. The 2009 coup d'état demonstrated the fragility of democratic institutions and the lack of confidence in them. U.S. Government (USG) food security assistance represents a fundamental piece of the Embassy Country Team's response to the crisis. Feed the Future investments will support President Lobo's democratically-elected government's efforts to meet the needs of its poorest citizens and strengthen private sector capacity for sustained economic growth and poverty reduction.

In 2010, the three principal USG agricultural development programs – the Millennium Challenge Corporation (MCC) Compact, the USAID Rural Economic Diversification Program and the long-standing P.L. 480 Title II Food Security Program – all came to a close. After a postponement of consideration for a second Honduras MCC Compact in the 2011 cycle, the Feed the Future Initiative became the only major USG agriculture development poverty reduction program supporting the USG's bilateral relationship with Honduras. Helping Honduras redouble its poverty reduction efforts is considered critical for re-establishing the faith of Honduran citizens in their democracy.

2.1.2 Whole-of-Government

Embassy Tegucigalpa has a well-coordinated Country Team, with all relevant agencies contributing to the Feed the Future Initiative. The State Department leads Country Team coordination, diplomacy efforts, and public affairs. The U.S. Department of Agriculture (USDA) addresses sanitary and phytosanitary and agricultural information issues with the Ministry of Agriculture. The Department of Commerce assists U.S. investors interested in agricultural and other sectors. The Treasury engages with the GOH on critical fiscal policy and debt management issues. Peace Corps works to incorporate volunteers into FTF activities and the U.S. Military provides humanitarian assistance to communities in the FTF target region. The most active participants in the FTF Initiative are:

- USAID is leading implementation of FTF in Honduras, receiving all direct FTF financial resources. USAID Honduras has made FTF the focus of its current 5-year economic growth program strategy, as reflected in this document. The health program is also playing a direct, integral role in support of FTF's nutrition objectives. USAID is maximizing the linkage synergies across its different sector (health, education, democracy, economic growth) program portfolios.
- The State Department - The Embassy's ECON section has been an active, supportive participant in the development of the FTF Strategy for Honduras. As is the case across FTF focus countries, the ECON section, under the diplomatic leadership of the U.S. Ambassador, is taking the lead on the FTF policy advocacy agenda. This USG FTF Policy Agenda for Honduras is outlined below.
- The U.S. Department of Agriculture (USDA) - In addition to the USAID-supported USDA work on sanitary and phytosanitary (SPS) issues, USDA manages an important set of agriculturally-based assistance activities. The primary mechanism for these programs is the USDA Title I Food for Progress Program. A summary of current and planned USDA grants is included in the Core Investments section below.
- The Peace Corps is finalizing its new country strategy for Honduras, where it has one of the largest volunteer programs in Latin America. The new strategy contemplates linking volunteer placements in the FTF target region – already the main location for volunteer placement in the country-- to USAID implementation. USAID is working closely with Peace Corps to co-locate food security volunteers arriving this summer with the new USAID food security program implementers. While no decision has been made, it is estimated that 12 volunteers will have a direct implementation role in this program, while an additional 15-20 volunteers will contribute to FTF objectives indirectly.
- The Millennium Challenge Corporation - Honduras is currently working hard to become eligible for a second MCC compact. If this occurs, it will be critical that the compact design team and the MCC take into account the existing portfolio of FTF activities, in order to develop a

compact that is complementary to this strategy. The MCC is providing technical assistance to Honduras on their corruption remediation plan in support of its effort to become eligible.

2.1.3 Building on Prior U.S. Government Investments

While the first MCC Compact in Honduras has closed out, the FTF Initiative will build substantially on its investments. These include MCC investments that widened Honduras's main highway linking the western region to the capital city, Tegucigalpa, and several important upgrades of rural roads in western Honduras. The FTF Initiative will also leverage MCC investments in agricultural infrastructure, such as micro-irrigation systems, a potato seed propagation center, and a coffee variety research center. Similarly, FTF will expand the network of horticulture value chain companies that was developed by USAID's recent 5-year Rural Economic Diversification Program. The recently closed-out USAID P.L. 480 Title II Food Security Program also leaves a network of NGOs with a proven track record of providing health outreach services, which can be leveraged under the FTF nutrition component.

2.1.4 Food Security Situation

Honduras is the second poorest country in the Western Hemisphere,¹ with a poverty rate of 66 percent. Some 45 percent of the population lives in extreme poverty. Approximately 73 percent, or 2.6 million, of extreme poor Hondurans live in rural areas. One million of these extremely poor populations are concentrated in six departments in western Honduras (La Paz, Intibucá, Lempira, Ocotepeque, Copan, and Santa Barbara). These six departments also have the highest chronic undernutrition rates in the country, averaging above 50 percent compared to a national chronic undernutrition rate of 25 percent. The south of Honduras (Choluteca, Valle, El Paraiso) is also an important secondary geographic concentration of extreme poverty and chronic malnutrition.

2.1.5 Host Country Leadership

Honduras has demonstrated strong national leadership on food security. In response to increasing global risks related to food and energy prices--as well as in recognition of the linkages among poverty, disenfranchisement and the country's recent political crisis -- the Government of Honduras has made food security a national priority. In 2010, the GOH established a new National Food Security and Nutrition Strategy and a new National Agricultural Sector Strategy to implement this priority. The GOH is developing a complementary Country Investment Plan (CIP), which identifies priority areas for existing and potential national and donor resources.

The CIP is envisioned by the GOH as a living document that serves as a planning and coordination tool for the agricultural sector. More than one year of GOH and donor discussions and consultations on the CIP has significantly advanced Honduras's food security efforts, including the development of this USG FTF Strategy. For example, market-based agricultural diversification in the poorest regions of Honduras -- the principal thrust of the USG food security approach -- is the cornerstone of the CIP. With several institutionalized forums already in use for key stakeholder consultation on food security, the GOH is well-poised for final CIP consultation.

Through the CIP, the GOH is already putting the following into practice: 1) continuing to demonstrate a high level of commitment and leadership to measuring food security outcomes, 2) identifying priority policy objectives for improving food security and the participation of the poor in market opportunities, 3) demonstrating the government's own investments in, and planned results toward, the goals of this

¹ Source: United Nations Economic Commission for Latin America and the Caribbean (ECLAC) Social Panorama 2008, Table A1 p. 81 (Spanish edition); ECLAC Social Panorama 2007, Table I.3 p. 62 (Spanish edition).

plan, 4) providing a framework for donor coordination, and 5) identifying institutional capacity for impact monitoring of CIP objectives across GOH and donor investments.

2.1.6 Donor Coordination

Honduras' country-led food security process is the foundation for donor collaboration and policy dialogue on food security in the country. Honduras has an active, formal donor coordination mechanism, known as the G-16 for the number of donor country members, which consists of three tiers of coordination: 1) a high-level committee of ambassadors and multilateral resident representatives; 2) a group of donor agency heads and multilateral donor organization chiefs; and 3) a network of sector-level donor working groups. The G-16 mechanism has close linkages with the Ministries of Planning and Finance as well as with line ministries. All three G-16 tiers have been very active on food security, strongly supporting the GOH's development of its new food security strategy.

The sector-level Agroforestry Working Group serves as the focal point of donor coordination for food security matters, including donor alignment with the host country strategy. The Group serves as a nexus for donors to share detailed information on their existing and planned food security programs, both with each other and with the GOH. The Agroforestry Working Group's comprehensive listing and mapping of current donor projects and potential new assistance is regularly updated and organized for easy collation with GOH objectives and resources. The result is an agreed-upon delineation of geographic regions, subject areas, and intervention methods among Honduras donors, which eliminates duplication and overlap in donor response to the GOH-led food security strategy.

2.1.7 U.S. Government Feed the Future Policy Agenda

The comprehensive USG FTF program in Honduras will create significant opportunities for USG diplomatic and advocacy contacts with the President of Honduras, key ministers, operational managers in the agricultural sector, and with private sector leaders, the media, and NGOs. These contacts will be both bilateral by USG representatives and through the multi-donor coordination group, the G-16. The objectives of our policy and advocacy efforts are to advance sustainable food security and income growth in the agricultural sector, achieve growth and development of the Honduran economy in general, and facilitate regional trade, especially of foodstuffs. We have identified the following subjects for high level diplomatic engagement and/or for public affairs intervention:

- Promote the adoption of new technology that will improve agricultural production via higher-yielding, insect-resistant, and disease-resistant seeds;
- Encourage creation of credit products and sustainable lending programs for agriculture based on the new secured transactions law and moveable property registry established under the just completed MCC Compact;
- Monitor compliance with the International Monetary Fund (IMF) Stand-by Arrangement which provides the framework for macroeconomic stability, fiscal discipline, and increased social investment;
- Help with the Economic, Energy, and Business Affairs (EEB) Building Remittance Investment for Development Growth and Entrepreneurship (BRIDGE) initiative to securitize remittances so as to have a pool of funds to support priority food security investments, especially in the south and the western highlands;
- Ensure that GOH budgetary expenditures for food security and poverty reduction are maintained at the Food Security Country Investment Plan levels;
- Encourage efforts to increase fiscal discipline and reduce corruption in revenue collection and irregular expenditure procedures;

- Strengthen GOH anti-corruption efforts so as to re-establish MCC Compact eligibility;
- Improve tertiary road maintenance efforts to facilitate movement of agricultural goods;
- Maintain pressure for improved security to improve the investment climate and agriculture sector growth;
- Develop trade-friendly sanitary and phyto-sanitary policies and procedures to encourage cross border movement of agricultural produce;
- Find the right balance at cross-border control points between security check requirements and facilitation of regional trade;
- Encourage renewable energy adoption in the western highlands to facilitate agricultural growth and an improved quality of rural life.

2.2 U.S. GOVERNMENT STRATEGIC DECISIONS

2.2.1 Focus on the Main Food Insecure Region of Honduras

Analysis

Analysis of available data indicates that the most significant concentration of extreme poverty and chronic malnutrition in Honduras is in its six western departments (La Paz, Intibucá, Lempira, Ocotepeque, Copan, and Santa Barbara). These six departments contain approximately 1 million of the 2.6 million Hondurans living in extreme poverty. Preliminary findings from International Food Policy and Research Institute's (IFPRI) poverty mapping analysis -- which uses available data (i.e., soils, slope, agricultural productivity, distance to markets, road quality, poverty, etc.) to model where agriculture investments will produce the highest marginal reduction in extreme poverty -- support the selection of this target region. USAID's extensive experience with agricultural development in the region indicates that the agricultural potential in a significant portion of the West is even greater than IFPRI's analysis suggests. Given these factors and the opportunity to leverage prior USG health and agriculture investments in the West, it made immense strategic sense to focus USG FTF resources on that region. This is particularly true since other donors are effectively responding to food insecurity in the South, the second most important concentration of food insecurity.

Approach

Additional analysis has further identified 12 focus sub-regions and 90 target municipalities (counties) for the first phase of the Initiative in Honduras. Diversified, integrated farming systems will also help mitigate risks. The mountainous topography of this region enables a focus on a range of over 30 horticultural crops depending on the local micro-climate. Many households to be targeted have already dedicated their land to a combination of horticulture, coffee, and basic grains -- making it possible to build on existing investments and experience while shifting crop mixes to maximize household income. Some parts of the West, particularly those in the dry shadows of mountains, may require investments to move water from mountain top sources to farmable lower slopes for commercial horticulture to be feasible. Although some irrigation systems already exist in such contexts, they may have been underutilized due to a lack of technical assistance and market linkages.

Cross-cutting Issues (Gender, Environment/Climate Change, Sustainability)

The target region has seen significant out-migration, particularly by men who have gone to the cities or the U.S. to pursue economic opportunities. As a result, there are a high proportion of poor households that are headed by women. This makes identifying economic opportunities that are feasible given the constraints of these women an essential element of our approach in this region. A detailed discussion of

these opportunities is presented below. Secondly, the mountainous terrain of the target region requires careful attention to sound environmental management at both the farm and community level. Good, on-farm agricultural practices, particularly attention to appropriate soil conservation measures, are critical. At the community level, careful stewardship of forested municipal lands will ensure the long term sustainability of water sources and increased resilience to tropical storms. Finally, the USG's concentrated geographic approach will reduce the transaction costs of reaching the rural poor and make it possible to create economies of scale in the targeted value chains. Focusing efforts on the poorest municipalities of these departments will also strengthen the desired synergies between agriculture and nutrition interventions that will increase impact and sustainability.

Expected Impact

By concentrating on the region with the highest concentration of extreme poverty and chronic malnutrition, interventions will make the greatest possible impact on national poverty and nutrition statistics. This is particularly true since it is the statistics of this region that are buoying national figures for both measurements. By linking this region to the markets of major Honduran cities, neighboring countries, and the U.S., USG investments will support farm businesses to grow and diversify, laying a strong foundation for long-term growth in this historically neglected region.

2.2.2 Focus on the Two Highest Growth Agricultural Products Suitable to the West – Horticulture and Specialty Coffee

Analysis

Once the decision was made to focus investments on the most food insecure region of Honduras, the West, it became important to consider what crops, with market potential, were agronomically appropriate for this region. Coffee and horticulture were immediate, clear choices given their existing cultivation in the region and proven market demand. In contrast, much of the remaining significant contributors to Honduras's agricultural GDP were obviously inappropriate to the area. For example, African palm (oil), bananas, and sugar cane are all extensive lowland, humid tropical plantation crops. Cattle ranches are also inappropriate for this forested, mountainous region, having been a major cause of deforestation of its steep slopes, resulting in irreversible soil degradation. It is also difficult to make money in cattle ranching, even with extensive landholdings. The Honduran fisheries sector is based on capital intensive shrimp and tilapia farms based on the South and North coasts. Melons (honeydew/cantaloupe/watermelon), although another major export crop and a large contributor to horticulture's portion of agricultural GDP, require intensive land, water, and capital inputs; and so they are typically concentrated in the hot, arid South. Finally, corn and beans, the cornerstones of the Honduran diet, are grown extensively as small-scale, low-input subsistence crops in the West (these will be discussed below separately). Commercial corn and bean production is centered in the lowland valleys of central Honduras and is not feasible in the West given the mountainous terrain.

Approach

The USG has identified the fresh vegetable and fruit (horticulture) value chain and the specialty coffee value chain as the best targets of market opportunity for the FTF Initiative in Honduras. Together, these two value chains represent 36 percent of national agricultural GDP. Both of these crop types represent areas of competitive advantage for Honduras, with strong and growing market demand. Horticulture has national, regional and international market opportunities, whereas coffee is an international market-oriented value chain. In both chains, opportunities exist to improve farm-gate prices, and thereby farmer household incomes, through the establishment of direct relationships with major retail clients. Both value chains also have a strong presence in the target region. The challenge, therefore, will be to

incorporate the smaller, poorer subsistence farmers into these established market opportunities. These two value chains are often a part of a diversified farming system of the households of this region. Wherever possible, both systems will be supported within the same farming household to diversify income and mitigate the risks associated with either crop in a given year.

Based on firsthand market knowledge of recent and current implementers and their market partners, there remain extensive, diverse, and growing domestic, regional, and international opportunities in a wide range of horticultural crops suitable for small producers in the Western highlands of Honduras. These include, but are not limited to:

Hotter climate/lower altitude:

- Vegetables - tomato, pepper (sweet & hot), cucumber, onion, butternut squash, oriental vegetables
- Fruits - mango, papaya, limes, pineapple

Cooler climate/high altitude:

- Vegetables - cabbage, lettuce, broccoli, cauliflower, carrots, chayote (squash), celery, green beans, snow peas, green leafy vegetables (spinach, mustard, watercress), green onions
- Flowers - carnations, roses, chrysanthemums, calla lilies, Gerber daisies
- Herbs & spices - cilantro, basil, parsley, dill, rosemary, mint, fennel, chives, thyme, ginger, lemon grass, black pepper, cardamom
- Root tubers - potato, sweet potato, malanga/cassava, yucca and plantains
- Berries - blue, black, and strawberry
- Tree crops - avocado, apples, peaches, pears, nectarines, plums, quince
- Fruits for juice processors - passion fruit, pomegranate

While the rise of supermarkets in Central America is rapidly changing the market for fresh produce, it is estimated that 70 percent of market opportunities remain outside of supermarkets. These traditional local markets and processing buyers are the market entry points for small farmers making the transition from subsistence basic grain production, as they are less demanding in terms of quality, volume, and consistency of supply. However, efforts will be needed to make the relationship with the traditional intermediaries for these markets more predictable and profitable. This will involve helping these intermediaries to understand how traditional markets are changing in response to the new competition from supermarkets.

Coffee is the backbone of the economy of the western highlands of Honduras. It is one of the most important sources of income for farmers, pickers, and local markets, which are stimulated by the annual infusion of coffee-related cash into the region. Analysis of the coffee sector indicates a strong opportunity for capturing more of the expanding specialty coffee market share. While 80 percent of the coffee grown in the western highlands meets requirements for specialty coffee, only 10 percent is formally sold under this designation. In 2011, there was a pronounced market indication that Arabica coffee supplies for specialty markets were failing to keep up with global demand, as prices soared as much as 232 percent on commodity markets. A record harvest in Honduras this year made it the most important coffee exporter in Central America and the 5th largest global exporter of Arabica coffee overall. In addition to this increase in demand for strictly hard-bean, washed Arabica (e.g. specialty coffee), a range of additional value-added opportunities in coffee specialization continue to show market growth, including origin-denominated coffee (i.e. Marcala denomination in Honduras), third-party

certifications (organic, fair trade, rainforest alliance) and company-specific preferred supplier certifications (Starbucks, UTZ).

Cross-cutting Issues (Gender, Environment/Climate Change, Sustainability)

Both of these target value chains demonstrate significant involvement from women. However, it is not generally as “the farmer,” but rather as the provider of family labor in key, labor intensive phases of the production cycle. Women also participate widely in both coffee and horticulture value chains as paid laborers, though given the larger size of the coffee sector it typically has a greater impact on women’s income. Women-headed households often participate in coffee picking, though given the isolated and seasonal nature of the coffee harvest this requires such women to travel and work with their children. The situation is generally the same for male-headed households, however, with the whole family travelling and working together. Our strategy for leveraging the targeted value chains to improve income opportunities for women is addressed below under Strategic Decision 6.

Environmentally, the intensity and profitability of horticulture production relative to traditional basic grain production creates much stronger incentives for making investments in labor intensive soil conservation practices necessary for farming sustainably on hillsides. The more intense use of inputs in horticulture, including pesticides, will be mitigated through promotion of Integrated Pest Management, appropriate use and handling of inputs, and compliance with USG regulations through an approved pesticide use plan. Coffee is particularly well-suited to the steeper slopes of this region, both because quality is directly affected by altitude and because the Arabica varieties need shade, resulting in an agroforestry-based system of production that incorporates leguminous trees (i.e. Inga), as well as a range of fruit, firewood, and timber trees. This coffee-based agroforestry production system is very sustainable in this mountainous terrain given that it shares many of the soil conservation attributes of forests.

Expected Impact

With a focus on these two high-potential value chains, which are both well suited to the target region and the limited assets of its poor farming households, we intend to make horticulture and specialty coffee the new foundations of the rural economy in this region. The intention is to put in place the market systems and business relationships that will allow new small farmers to continue to move out of basic grains and cattle ranching and into the new value chains long after the FTF Initiative has ended. Whereas in the past this region was synonymous with subsistence farming, we expect that in the future it will be viewed as the vegetable, fruit, and coffee powerhouse of Honduras.

2.2.3 The USG Will Bring Its Successful Market-Driven Agricultural Approach to the Extreme Poor

Analysis

Honduras has open markets that are well integrated into the regional and global economy. The country has undergone a 25 year process of liberalization and trade integration. Honduras is a party to the Dominican Republic and Central American Free Trade Agreement (DR-CAFTA) that provides permanent market access to the United States and to the other 6 member countries (Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and the Dominican Republic). While the global recession, in combination with the Honduran political crisis, tested the Honduran economic institutions, Honduras has made it through without suffering any type of fiscal crisis. The framework of a new IMF Stand-by Arrangement provides the GOH with a set of priority economic objectives to guide it out of the

recession with its macroeconomic management on a solid footing and a renewed focus on economic growth in place.

Over the last 20 years, the textile manufacturing industry (i.e. maquilas) have been the most important contributor to exports, GDP, and job creation. This sector was also the most important market access component of DR-CAFTA. However, with the end of the international Multi-Fiber Agreement that had regulated the global textile supply through a quota system and the entry of major new producers, particularly China, the future potential of the textile sector to grow and add jobs relative to other sectors of the Honduran economy is limited. Current analysis indicates that over the next five years, services (e.g., telecommunications, call centers, financial services), agriculture, and tourism will drive growth in the Honduran economy. There is a strong potential, as a result of the stable investment climate created by CAFTA and the permanent U.S. market access it provides to 90 percent of agricultural products, to experience a resurgence in the importance of Agricultural GDP relative to overall GDP from its current 14 to over 20 percent. The rapid global rise in global demand for food stuffs resulting from the emergence of China, India, and other emerging economies will also be a further source of growth for the agricultural sector. Honduras's openness to, and integration with, international markets greatly facilitates its taking advantage of these new opportunities.

Approach

In order to sustainably generate new income opportunities for the extreme poor, the USG strategy in Honduras will be based on a market-oriented approach to agricultural diversification. The USG has over 10 years of intensive experience in market-oriented agricultural diversification that indicates that this is one of the most effective strategies for creating new income and employment opportunities for the rural poor in Honduras. This means focusing on the highest potential agricultural value chains and developing new business opportunities for farmers based on the specific product needs of clients. The proven potential of these markets to make money for the rural poor of Honduras will now be moved downstream to the extreme poor with the fewest assets and an interest to pursue these opportunities. Additional income opportunities will be generated for the extreme poor who lack these minimum pre-conditions, by creating new employment with those who do. Increased local demand from these improved incomes, as well as other local market opportunities will present additional non-farm micro and small business opportunities.

Cross-cutting Issues (Gender, Environment/Climate Change, Sustainability)

While women do not traditionally self-identify as farmers in Honduras, even when they are heads of farming households (which generally include males other than a spouse), the reality is that they are active in both subsistence and commercial production at critical, high labor demand points in the production cycle (i.e., planting, weeding, harvesting, packing). However, the labor demands and time constraints of rural women's traditional role as housekeeper and child raiser generally limit their direct management of the household's farming operation or the income derived from it. In recognition of both of these realities, activities will emphasize income opportunities that can be managed by women and that enable them to control the income earned.

To mitigate market shifts and volatility, it will also be important to develop the capacity of producers and their value chain partners to shift, where feasible, into new products in response to changing market demands. The establishment of new mechanisms for farmers to directly receive reliable market information, particularly through the use of new information technology such as the now ubiquitous cell phone, is also critical to the sustainability of farmers' successes beyond the life of the Initiative.

Expected Impact

As a result of USG assistance, the targeted beneficiaries (poorest households) will increase their incomes to a level that will allow them to cover the cost of a basic basket of goods and services, and thereby surpass the national poverty line. This will be reflected in better nutrition and food security over time. Whereas earlier agricultural interventions often emphasized subsistence production, the market orientation of the Feed-the-Future Initiative in Honduras will make it an engine of rural growth and poverty reduction. Moving out of rural poverty requires increased incomes, which require growing, profitable farm businesses. By making clearly identified market opportunities the point of departure for all farm level decisions, the necessary focus on improving incomes will be embedded in all technical assistance. Market requirements and profitability considerations will drive investments in new technologies and practices.

2.2.4 Pursue a Private Sector Based Change Model that Delivers Sustainability through Profits

Analysis

The Government of Honduras's weak public sector institutions, particularly the Ministry of Agriculture, lack the financial and technical resources required to move significant numbers of Honduran citizens out of extreme poverty through market-based agricultural diversification. While the Ministry is a significant bureaucracy with not insignificant financial and human resources, it has little presence in the target region. When it effectively contributes to national poverty reduction objectives, it is through the external support of a donor-funded program implementation unit, but even then the results have generally been disappointing. Donors, including the USG, have made major investments in the legal framework and institutional capacity of the Agricultural Ministry over the last 30 years with disappointingly little to show for it. Among a range of possible contributing factors, some principal causes of this are likely the lack of a professional civil service capable of retaining technical expertise and a poor GOH record of being able to transform new legal frameworks into viable institutional arrangements for effective implementation. As a result, a private-sector based approach is consistent with the development of the agricultural sector in Honduras in recent decades, in which the role of the Ministry of Agriculture has been minimal. The current Minister of Agriculture firmly believes that a private sector-based market approach is a prerequisite for achieving agriculture-based poverty reduction and that the most important role for the Ministry is to provide the enabling environment for this approach to succeed.

Approach

Given that markets are driving the opportunities in the two FTF target value chains and that it is private companies that are responding to these opportunities, the Honduras strategy will focus on working with the private sector to develop the capacities and services necessary for small farmers to take advantage of market opportunities. By building farmer support systems that provide market signals and incentives, the target value chains can continue to grow and evolve after USG investments have ended, extending the impact of investments over time and beyond the direct beneficiaries of USG programs. This strategy is premised on experience that even the smallest, poorest farmers can succeed as small business operators if given the right information about market requirements and transitional technical assistance. Accordingly, program activities will target the full spectrum of value chain participants, including farmers, processors, NGOs, research institutions, input suppliers, financial service providers, brokers, and wholesale and retail buyers. The objective is to “embed” the services small farmer businesses need to grow and sustain themselves in the marketplace with this full range of private sector actors. After 10 years of intensive, market-oriented USG investment in the agricultural sector, there is a strong set of

private sector institutions, including medium and larger producers, into which the newly diversified small farmers will be integrated.

Cross-cutting Issues (Gender, Environment/Climate Change, Sustainability)

A private sector based approach implies that equitable access to economic opportunities must be established for both male and female value-chain actors to achieve their full income potential. These actors must view women as credible; business worthy clients in order for women owned and operated small businesses to grow. Experience indicates that when women succeed in establishing businesses that respond to specific market opportunities, there are few issues with their value chain colleagues not treating them as equal partners. This is consistent with the development hypothesis that improved access to economic opportunities results in reduced gender discrimination and greater women's empowerment, as well as, more efficient and productive economic systems.

A private sector based model also implies that sound environmental business practices will be driven more by market incentives and requirements than by public sector regulation. This is because weak institutional capacity in the public sector limits responsible environmental regulation and enforcement. As a result, private sector incentives -- such as the need to protect the water source of an irrigation system that makes a community vegetable farm feasible, a U.S. coffee retailer's interest in protecting its brand's social and environmental reputation, and a supermarket's internal purchasing standards that require random testing for unacceptable levels of pesticide residue on the produce it purchases -- are far more effective at promoting environmentally sound business practices in developing countries like Honduras than public sector enforcement.

As for the sustainability of USG efforts, the challenge for a private sector based approach is not just to leave small farmers so that they will be able to survive on their own after the end of the program (with the support of their business partners), but that enough private sector based capacity, services, and proven business growth potential is established to lay the foundation for continued incorporation of new, small farmer entrants into the value chains beyond the life of donor programs. This requires a careful balance of encouraging private sector innovation in incorporating small farmer suppliers into their business models, while not creating disincentives to continuing to do so when donor support ends (e.g. as the result of an excessive infusion of donor resources into the value chain). This is the difficult, but transformative, balance of getting the private sector to operate in an inclusive manner in a particular value chain, so that donors can then get out of the way of subsequent growth and sustainability.

Expected Impact

The expected impact of this private sector model is that new sales from participating farmers, combined with new employment from their and other related value chain businesses, will deliver the new income necessary for poor households to move out of poverty in a sustainable manner. This new income will also serve as an important source of reinvestment in these small businesses for continued growth.

2.2.5 Increase Basic Grain Productivity to Free up Land for High-value Crops and Generate Additional Income

Analysis

The livelihood and culture of the extreme rural poor of Honduras, including in the target region, is one of subsistence basic grain farming. These households generally use their small, hillside landholdings to produce corn and beans using very minimal technology and low-labor agricultural practices. While self-identifying as subsistence farmers, the reality is that these households generally only meet 20-25 percent

of their food consumption needs through self-production. This is the result of three main factors: a) the main staple, basic grains represent only a portion of their total diet (i.e., excludes oil, eggs, meat, vegetables, etc.); b) these farms have very low productivity levels as the result of low-labor and low-technology production practices; c) high post-harvest losses result from inadequate storage; and d) agronomic conditions are not conducive to basic grain production given the small hillside plots, high altitudes, and inconsistent rainfall. In order to meet the rest of a household's food needs, several family members generally seek off-farm employment or outside income opportunities, primarily agricultural day labor. Although continuing basic grain production makes little economic sense, there is a deeply ingrained culture of subsistence farming. It is not realistic that in the short term these campesinos will completely shift from basic grain farming to more profitable commercial production of vegetables, fruits, and high-value coffee.

Approach

As a result, while corn and beans have not been identified as a target value chain with strong income earning potential, analysis and experience has led to the conclusion that we will sometimes need to use improved basic grain productivity as an entry point to working with subsistence farmers.

This is because it has been clearly demonstrated in recent USAID pilots that existing yields can be doubled or tripled through adoption of three sound agricultural practices: (1) increased planting density; (2) improved weed control; and (3) more efficient and targeted application of fertilizer. Also, it is possible to use the initial work in basic grains to introduce farmers to modern, commercial farming practices. Finally, by increasing productivity, it will be possible to free up a portion of the household's land to diversify into horticulture and/or coffee. As farmers experience the new income that comes with market-oriented horticulture and coffee production, they will quickly reduce the area and period of the year devoted to basic grain production (although they will likely always continue to produce some corn and beans on some of their land for cultural reasons).

Given its cultural importance and its contribution to nutrition, basic grains will be incorporated into the crop rotation of the farming system, improving soil fertility and structure, and reducing pest incidence levels in horticulture crops in the process. While farmers have mostly been net consumers of corn and beans rather than net producers (i.e., on balance they are net buyers rather than net sellers), there is potential to produce a surplus as the result of improved productivity. The long-term trend of continued national and international price increases for corn and medium-term rises in national and regional prices for beans make these crops a potentially profitable venture in local markets and an additional source of household income.

Cross-cutting Issues (Gender, Environment/Climate Change, Sustainability)

The proposed transitioning of extreme poor households from subsistence farming to market-oriented commercial horticulture and coffee farming is expected to have a positive impact on women, whether they are heads of household or members of participating households. Improved household income should increase choices with respect to food purchases, access to healthcare, education of children, and new economic opportunities.

Environmentally, the low-input, low-labor approach to subsistence farming in western Honduras has historically led to soil erosion and deforestation due to the excessive clearing of steep slopes for basic grain production. The widespread practice of burning fields has led to unintended forest fires. Diminishing soil fertility often has prompted the clearing of new fields and the conversion of older ones to pastures, even though their slopes are inappropriate for this use. Both intensive horticulture and

coffee production will be more environmentally appropriate for hillsides. Horticulture will also require producers to reduce the area they plant in basic grains due to high labor demand created by the more profitable crop. Coffee, as an agroforestry based system, is appropriate for steeper plots and will help to stabilize these fragile, damaged slopes.

Expected Impact

While we have accepted a need to support the extreme poor in improving basic grain production systems, this is not the emphasis of our poverty reduction strategy and so minimal resources will be devoted to it. Rather, the objective will be to help farmers transform their farms into family businesses with a market and income earning focus, as quickly as possible. Improvements in basic grain productivity will be counted in national household expenditure surveys, and net increases in household income will be used to measure poverty alleviation.

2.2.6 Leverage Agricultural Approach to Create Income Opportunities for Women

Analysis

Women are often the primary decision-makers at the household level for health care, major family investments, and daily purchases.² However, women have less access to productive assets, extension and financial services, and technology, and consequently, lower incomes and greater food insecurity.³ In western Honduras, 40 percent of households are female-headed, of which 68 percent are poor.⁴

Approach

Given the critical role that rural Honduran women play in household food security, this strategy prioritizes both economic opportunities for women and gender equity. For example, the program will adapt agricultural extension, business development, and financial services to the unique constraints faced by women. Off-farm and home-based business opportunities (processing, retail sales, services, etc.) will be identified and supported so that both women and men who are limited by household and cultural constraints can take advantage of new economic opportunities. The program will foster equitable participation, address the distinctive needs of women, support women's economic advancement, and promote gender-equitable, market-driven solutions.

Economically, the most important new opportunities will be employment opportunities with farms and related agricultural companies. The labor intensive nature of both horticulture and coffee will create significant new employment opportunities in the target region. Grading and packing facilities will be particularly important with vegetables and fruits. In coffee, in addition to picking, processing/drying and compliance with certifications and quality standards will create new employment opportunities. Other micro and small business opportunities that have potential for growth as the result of increased incomes from agriculture in the region include: "patio" scale vegetable and fruit production for local markets, food processing home based businesses (fresh cooked, e.g. tortillas), preserved foods (canned chili peppers and fruit jams), and small animal husbandry (chickens, pigs, local dairy products). With improved local purchasing power from market based-agriculture, time, and their own creativity are the only real constraints on potential opportunities for women owned and operated micro and small businesses, and it will be their ideas that define specific technical assistance needs.

² An estimated 55 percent of household decisions are made by women, INE, ENDESA 2005-2006.

³ Feb 2011, Evaluación de la Seguridad Alimentaria en la Zona Sur de Honduras, FAO.

⁴ National Statistics Institution, Household Survey, May 2007.

Cross-cutting Issues (Gender, Environment/Climate Change, Sustainability)

As mentioned elsewhere in this strategy, interventions will be tailored to address the negative effects of climate change and environmental degradation. Since women are often the most immediately affected by climate change -- due to the increased difficulty of regular chores, such as harvesting fuel wood and water, and the greater likelihood of illnesses and health problems -- these efforts will also provide the added benefits of mitigating climate change's effects on women and supporting their adaptation to new climate realities.

Expected Impact

Increasing women's economic opportunities will achieve a double development impact. In addition to increasing income earned and controlled by women and therefore overall family income, it will also do more to improve family well-being than less targeted interventions, since women are more likely than men to spend their earnings on family welfare investments (health, education, and nutritious food). Improving economic opportunities for women will also increase women's access to resources and knowledge, which in turn will enable them to better look out for their economic futures. This positive cyclical effect will improve program sustainability while helping women to overcome poverty and improve their family's food security.

2.2.7 Support Ministry of Health (MOH) Decentralization of Child Nutrition and Growth Services to Increase Access and Reduce Costs

Analysis

The prevalence rate of chronic undernutrition in children under 5 in the six FTF priority departments averages above 50 percent, compared with the national chronic undernutrition prevalence rate of 25 percent. Several factors contribute to these elevated chronic undernutrition prevalence rates. On average, infants are exclusively breastfed for 2 months in the priority departments, which is below the national average of 2.5 months, and significantly below the recommended 6 months of exclusive breastfeeding.⁵ Research shows that a child born 3 to 5 years after the birth of its sibling is less likely to: a) be malnourished during infancy and through age 5; b) suffer from stunting; and c) be underweight.⁶ In the six FTF priority departments, 57 percent of births occur prior to a 36 month interval between births, with 20 percent of these occurring within 23 months of a previous birth.⁷ At the same time, the unmet need for family planning in these six priority departments averages 21.5 percent, exceeding 25 percent in some instances.⁸

Approach

Based on this data, the cornerstone of the Honduras FTF nutrition approach is improving access to an integrated set of maternal and child health services, from monitoring and behavior change activities at the community level, to referral to higher levels of care as appropriate in the departments and communities in the target region. This will be achieved through the implementation of an integrated, community-level child health program called Atención Integral a la Niñez en la Comunidad, or AIN-C. AIN-C is a growth monitoring program in which community volunteers: 1) weigh children (0-2 yrs); 2) compare weight to expected weight to detect inadequate weight gain; 3) counsel mothers and fathers

⁵ DHS, 2005.

⁶ USAID Issue Brief, August 2005.

⁷ DHS, 2005.

⁸ Ibid.

on adequate nutrition, care, hygiene, and health practices; 4) treat and/or refer sick children to the health center; 5) make home visits to children who fail to get weighed at the session, fail to gain weight, or are sick; 6) treat children 0-5 for illness; and 7) report program information to the health center. Based on the importance of birth spacing to ensuring adequate nutritional outcomes, counseling and referral for family planning services will be integrated into the implementation of the AIN-C model. The AIN-C methodology in Honduras was evaluated and found to have a significant, positive impact on young child feeding and care practices and on nutritional status, especially among poorer households and children who participated more regularly in the program.⁹

Where services are inadequate or unavailable, local NGO providers will be supported to provide services. This local behavior change outreach will be closely linked to agricultural extension services. For example, agricultural training will include messages on the effective management of household income to meet priority family welfare needs such as adequate investment in nutrition and health services. Health and agricultural extension specialists will promote patio gardens and tree crops for diet and income diversification.

Cross-cutting Issues (Gender, Environment/Climate Change, Sustainability)

The FTF nutrition efforts will be linked closely with the ongoing Health Sector Reform and Decentralization work in Honduras, which is actively supported by USAID and the Inter-American Development Bank. Through these efforts, the Ministry of Health is expanding decentralized service delivery provision via contracts with community-based NGOs and local governments, prioritizing underserved communities in western Honduras.

To support sustainability of FTF investments, USAID will work closely with the Ministry of Health to ensure that the full range of community-level child health services are progressively assumed and financed under the national program. Since community health workers are a formal part of the decentralized service delivery contracts, training and technical assistance provided for community health workers through FTF will ensure quality of services within the program.

Expected Impact

One of the most important impacts on nutritional outcomes in the target region is expected to come from improved household incomes for the extreme poor. To maximize the impact of this new income on reduced chronic undernutrition, the strategy will a) improve household access to nutritious food through diversification of self and local production (gardens, orchards, small animal husbandry); b) improve household decision making on nutrition, through local health extension services; and c) integrate the poorest, most remote satellite communities into the decentralizing national health system. The strategy will also work to reduce the prevalence of stunted children under the age of 5, reduce the prevalence of anemia in children 6-59 months, increase the percentage of children between 6-23 months that receive a minimum acceptable diet, and increase the prevalence of exclusive breastfeeding of children under six months.

2.2.8 Reduce Household Risk and Increase Economic Sustainability through Climate Change Mitigation Activities

Sound environmental management and adaptation to climate change strategies will be embedded in agricultural extension services. The increased economic value of land, water, and forest resources

⁹ Schaetzel, Tom et al. 2008. *Evaluation of the AIN-C Program in Honduras*. Arlington, VA, USA: Basic Support for Institutionalizing Child Survival (BASICS) for the United States Agency for International Development (USAID).

resulting from market-based diversification will create incentives for more careful stewardship of natural resources at the local level. Emerging knowledge and projections of the likely impacts of climate change in the FTF target region will inform, and be incorporated into, the technical assistance delivery of the FTF programs.

Analysis

Current analysis of Central America projects an increase in temperature and a reduction in rainfall due to global climate change; as a result, production levels are expected to reduce dramatically in the next few decades. Economic assessments estimate losses between 4 and 19 percent of the agricultural portion of GDP depending on the severity of the climatological variations.¹⁰ In Honduras, an increase in the frequency and intensity of destructive tropical storms has already been observed and the variability of flooding and droughts has also increased. While the latter is directly linked to the el niño/la niña ocean temperature variation, it is suspected that climate change is contributing to their severity and frequency.

Approach

Climate change adaptation is an integral cross-cutting element of this strategy. Interventions at the household, farm, community, and policy level will take climate change adaptation considerations into account. The value chains selected here are considered to be sound choices in light of current expectations about climate change impacts in Honduras in the medium term (10 years). In the case of horticulture, its reliance on irrigation will buffer it from changing rainfall patterns. Changes in temperatures are likely to result in slight adjustments in bands of appropriate elevations for particular crops (temperature being primarily a factor of altitude in the tropics). While coffee is rain-fed, it is quite drought tolerant, and its tendency to be located in close proximity to cloud forests and cultivated in agroforestry systems reduces the likelihood of its being affected by regional droughts. Similarly, the suitable altitude range for coffee may shift if temperatures rise, pushing it higher up the mountain (coffee currently doesn't produce much above 1800 meters in elevation). Disaster preparedness is also closely linked to climate change adaptation. Particularly vulnerable communities in the target region will be supported in disaster preparedness. For example, one area for information technology innovation would be the adoption of cell phone-based early warning systems. A complete description of the climate adaptation activities to be incorporated into our strategy is described below in the results framework section. Limited investments in this area will strongly leverage core investments both in agriculture and in environmental management and climate change.

Expected Impact

These adaptation actions will contribute to the sustainability of this strategy by ensuring that its approach is not undermined by unexpected changes resulting from climate change and/or environmental degradation. Efforts will also support the USG's overall climate change mitigation and adaptation objectives.

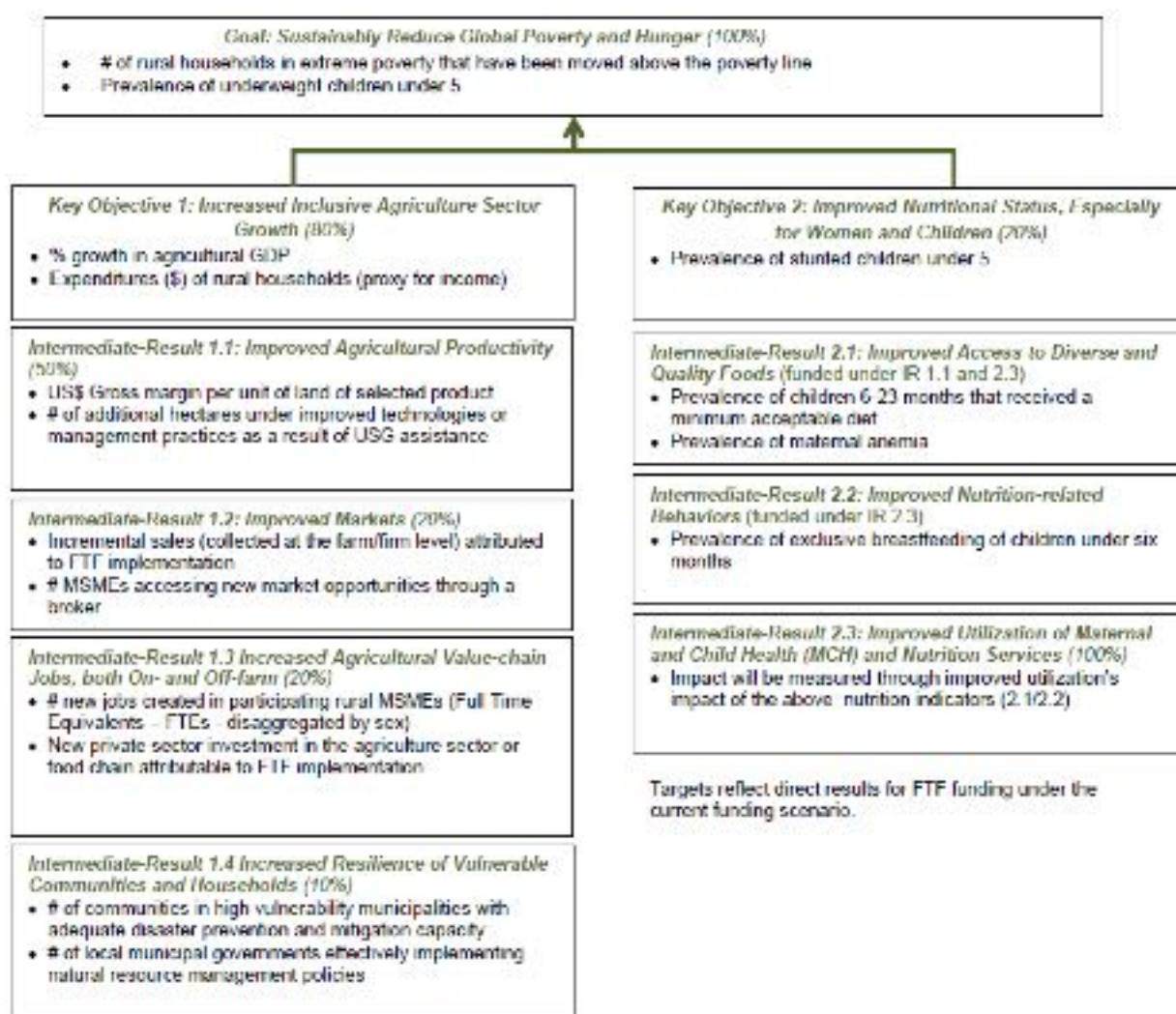
¹⁰ Ordaz, J.; Ramírez, D.; Mora, J.; Acosta, A. Serna, B. 2010. Honduras: Climate Change Effects on Agriculture. CEPAL (Comisión Económica para América Latina y el Caribe). Mex. Pg. 70.

3. FEED THE FUTURE PROGRAM STRUCTURE AND IMPLEMENTATION

3.1 GOAL: SUSTAINABLY REDUCE GLOBAL POVERTY AND HUNGER

The Development Hypothesis of this strategy is that improved household incomes for the rural poor resulting from market-oriented agricultural diversification will lift them out of poverty, resulting in improved diets and utilization of maternal and child health services, which in turn will lead to reduced levels of malnutrition. This FTF strategic results framework lays out this development hypothesis, including its main causal linkages.

Figure 1. Honduras Feed the Future Results Framework



Within all aspects of the framework, strong emphasis will be given to new economic opportunities for women and how new income impacts household welfare, particularly nutrition. FTF Implementers will target gender-based constraints in order to facilitate the participation and success of women, as well as men, in all aspects of the program (i.e., production, commercialization, processing, and decision-making).

Through Feed the Future in Honduras, over the next five years:

- An estimated 284,000 vulnerable Honduran women, children, and family members—mostly smallholder farmers—will receive targeted assistance to escape hunger and poverty.¹¹
- Significant numbers of additional rural populations will achieve improved income and nutritional status from strategic policy and institutional reforms.

3.1.1 Key Objective 1: Increased Inclusive Agriculture Sector Growth

This Honduras strategy will leverage agricultural-linked business growth opportunities to create the new job and income opportunities necessary to raise the household incomes of the extreme poor. Efforts will be spread across the farm/firm, value-chain, sector, and national business enabling environment levels. Emphasis will be on those economic growth opportunities that most directly translate into improved household income for the extreme poor.

Intermediate-Result 1.1: Improved Agricultural Productivity (SD2, SD6, SD8)

This Strategy will focus on finding the best economic opportunity for farmers' lands. Farming will be treated as a business, not a subsistence strategy. Training and other services will be geared towards creating competitive, profitable businesses both on- and off-farm. In order for beneficiaries to succeed and make money in the targeted new crops without taking on excessive risks, it is necessary that crop-specific, integrated small farmer programs be designed and negotiated with market partners. Partnering with a broker will mitigate many of the risks associated with participating in markets. This will allow beneficiaries to focus on the core business of production.

At the farm level, this comprehensive, small farmer-focused program will provide agricultural extension services to train farmers in the agricultural practices necessary to produce a crop that meets market requirements. It will include financing to buy crop cycle inputs (seeds, fertilizer, pesticides, etc.), as well as, capital investments like drip irrigation systems, simple field-based packing infrastructure, and materials. This financing will most likely come from non-bank lenders, such as a Caja Rural (village banking), but may also come from suppliers or brokers.

Recognizing the cultural importance of basic grain production and the risk-averse worldview of subsistence farmers, the FTF implementers will also support productivity gains and improved storage for basic grains where participating farmers have an interest in meeting all or part of their basic grain needs through their own production. Improving basic grain productivity through the adoption of basic, efficient agricultural practices will also allow farmers to free up some of their land for commercial crops while still meeting their household's basic grain needs.

FTF implementers must also try to reduce risk and spread income earning potential throughout the year through integrated cropping systems, where different crop selections, cycles, and markets are combined

¹¹ Disclaimer: These preliminary targets were estimated based on analysis at the time of strategy development using estimated budget levels and ex-ante cost-beneficiary ratios from previous agriculture and nutrition investments. Therefore, targets are subject to significant change based on availability of funds and the scope of specific activities designed. More precise targets will be developed through project design for specific Feed the Future activities.

into an annual farm plan. For example, coffee farmers' dependence on one annual crop and sale causes tremendous financial stress and can result in chronic indebtedness. Similarly, labor demands and the household division of labor must be considered when weighing different cropping options, to avoid unintended impacts on family relationships and workloads.

Intermediate-Result 1.2: Improved Markets (SD3, SD4, SD6)

Specific market opportunities in the targeted value chains will be the point of departure for all agricultural diversification and investments. Farmers and other value chain businesses will work together to increase their joint capacity to meet market requirements. Emerging markets will be considered in partnership with businesses that are in a position to develop them. Value chain organization will be driven by the requirements of the markets and the need to minimize costs. Farmers' businesses will be strengthened and formalized to contribute to these efforts, while also being linked to market partners (i.e., brokers, retailers, and exporters), to benefit from the services they provide.

At the broker level, FTF implementers will develop preferential supplier programs to enhance farmer associations' market sustainability once they reach a level of proficiency through the project's assistance. While these small farmers represent more risk to brokers, increasing interest from retail buyers (supermarkets, specialty coffee buyers, etc.) in sourcing from small producers will represent a new market opportunity to many brokers and a compelling reason to pursue this new business model.

The broker will play a critical role in these integrated farmer programs, including: 1) signing purchase contracts with farmers or associations; 2) coordinating producer/association production schedules; 3) setting quality standards; 4) providing grading/packing services; 5) providing transportation services; 6) offering financial services (pre-harvest loans, risk insurance, credit lines for managing cash flow, etc.); 7) providing quality assurance and certification to meet retailer market standards; and 8) negotiating long-term supply agreements with retailers. There are several important brokers in Honduras who are experimenting with this business model, and there is strong interest on the part of supermarket chains in partnering with brokers to develop them.

In addition to diversifying beneficiaries' activities into value added crops, FTF implementers will also support the development and linkage of post-production, rural micro and small businesses to market opportunities. The goal remains the same: to improve the income of poor rural households. The main objective will be to develop local products and services that take advantage of the new demand resulting from improved farmers' incomes. Illustrative examples include processed food products (tamales, bread, etc.), sales to restaurants, or retail sales of products of local interest (e.g. basic food stuffs, etc.).

Any viable small business opportunity will be supported. These businesses will also require technical assistance in basic business management and small business credit. Opportunities may also exist in more formal supply chains. For example, supermarkets have begun to establish small business-preferred supplier programs for certain post-production local products. However, many of these businesses are very small and informal, generating only a small amount of additional income for their households. Accordingly, special attention must be paid to ensuring that these small businesses are economically viable.

Intermediate-Result 1.3 Increased Agricultural Value-chain Jobs, both On- and Off-farm (SD3, SD4, SD6)

Most opportunities for reducing extreme poverty through increased incomes will come from the growth of the most entrepreneurial, risk-taking farms and businesses. The landless, those with limited farm assets or whose household responsibilities make it impossible to farm full-time, will move out of

extreme poverty by working on their neighbors' farms, packing facilities, or other value chain businesses that are growing as the result of FTF programs.

As a result, FTF implementers will also address barriers to the competitiveness of the agricultural sector, particularly as it relates to the specific agricultural crop value chains that present market opportunities for small farmers and businesses. They will take a very pragmatic, private sector approach to addressing these constraints. The approach must focus on improving private sector coordination and private sector partnerships with the public sector, to advance effective, efficient implementation of existing regulations. These have the greatest potential to resolve major constraints to competitiveness.

One of the most significant barriers to agricultural competitiveness is a lack of access to affordable, appropriate financial services for small farmers and small businesses. FTF implementers will focus on the constellation of issues that constrain access to finance, including the lack of registered property to serve as collateral, the tendency of rural small businesses to not register formally, the reluctance to use the banking system to manage business finances, and the lack of cash flow/credit history. New financing products made possible by Honduras's new secured transactions law (bonded warehouses, receipts securitization, factoring, etc.) present a particularly promising opportunity for expanded access to credit for medium-sized businesses, such as brokers and input suppliers, which in turn can translate into increased financial services for farmers. Additional constraints will be identified, prioritized, and addressed in partnership with the private sector. This competitiveness policy work will take place within the context of a Honduras FTF Food Security Country Investment Plan (CIP), which is owned and implemented by the GOH.

Intermediate-Result 1.4 Increased Resilience of Vulnerable Communities and Households (SD1, SD8)

The emphasis of IR 1.4 will be on the vulnerabilities associated with climate change. In Honduras, the most prevalent threat from climate change is the increasing frequency and intensity of tropical storms. Increasing the capacity of communities in the highly vulnerable target region to respond to natural disasters, as well as to effectively manage their natural resources and take advantage of off-grid renewable energy, will be an important cross-cutting focus of this strategy.

Sound environmental and natural resource management is an integral component of this strategy. This component will be implemented on three levels: First, at the field level where technical assistance must be provided on crop production, the FTF implementers will emphasize good agricultural practices, such as integrated pest management/minimal pesticide application, soil conservation practices, and efficient use of water through drip irrigation. The next level is that of the whole farm, where FTF partners will encourage good overall land use management, such as protecting riparian buffers and standing forest, and reforestation. Thirdly, the implementers will work at the municipal level to strengthen local capacity to effectively regulate land and natural resource use. The FTF implementers will promote proven, simple models of local ordinances that limit the expansion of the agricultural frontier (conversion of forest to agricultural production), prohibiting burning of agricultural fields that leads to large uncontrolled forest fires, and protecting private and municipal forests that are critical to the preservation of local water sources. The establishment and enforcement of these local ordinances will also significantly reduce community vulnerability to tropical storms, drought, and climate change.

FTF implementers will work through local partners to strengthen disaster prevention capacity in local disaster emergency committees, including: 1) establishing risk maps, contingency plans, early-warning systems, and emergency shelters; 2) providing basic equipment; 3) training community volunteers; and 4) conducting simulation drills.

Additionally, In support of USG climate change objectives, FTF partners will work with communities and local organizations to develop small clean/renewable energy projects that, for example, provide minimal electrical service (i.e., lights, cell phone charging, emergency radios) to communities off the power grid and located around targeted protected areas. It is envisioned that these systems will be implemented by local NGOs with technical assistance from local community based organizations.

3.1.2 Key Objective 2: Improved Nutritional Status, Especially for Women and Children

One of the most important impacts on nutritional outcomes in the target region is expected to come from improved household incomes for the extreme poor as the result of Key Objective 1. To maximize the impact of this new income on reduced chronic undernutrition, the strategy will a) improve household access to nutritious food through diversification of self and local production (gardens, orchards, small animal husbandry), b) improve household decision making around nutrition-related behavior, through local health extension services, and c) integrate the poorest, most remote satellite communities into the decentralizing national health system.

Intermediate-Result 2.1: Improved Access to Diverse and Quality Foods (SD5, SD7)

The direct linkage between the agricultural and nutrition components of the strategy will improve household access to nutritious food through diversification of self and local production (gardens, orchards, small animal husbandry). Kitchen gardens will increase the diversity and nutrient quality of foods consumed by families, and as a potential income source for the farm household women and youth. Activities will prioritize crops that are high in important vitamins and minerals and are relatively easy to grow, including green leafy vegetables, carrots, sweet potatoes, tree fruits (e.g. avocado), passion fruit, and cooking bananas. Support to small-scale aquaculture, poultry, and other small livestock production will further increase household dietary diversity and quality. Agricultural extension agents working in target communities will take the lead on this, in close partnership with their health counterparts.

Intermediate-Result 2.2: Improved Nutrition-related Behaviors (SD7)

Existing NGO capacity and experience, gained through the recently phased-out USAID Title II program, will be leveraged and sustained. Efforts will build on established, community-level health behavior change extension services provided under the previous program, to ensure a direct linkage between improved household income and improved nutrition outcomes. These services will be provided by community health workers and based on the AIN-C model, which emphasizes nutrition counseling and education related to adequate feeding practices. Social marketing campaigns that promote breastfeeding and complementary feeding, supplementation with micronutrients, nutrition for adolescent girls and women of reproductive age, and improved hygiene practices will also be developed in partnership with the private sector.

Intermediate-Result 2.3: Improved Utilization of Maternal and Child Health (MCH) and Nutrition Services (SD7)

The approach to improved MCH services builds upon existing USAID efforts to decentralize GOH health services to local, non-governmental organizations and municipal government networks. This effort prioritizes the decentralization of health services for the poorest and most remote communities, since decentralization has been demonstrated to significantly increase access to a basic package of MCH services. Due to their presence in these priority communities, NGOs supported by this strategy will also be particularly well-positioned to enter into contractual relationships with the GOH, to provide services over the long-term.

4. CORE INVESTMENT AREAS

4.1 U.S. GOVERNMENT PLANNED INVESTMENTS

4.1.1 USAID-ACCESO

Originally outlined in the Honduras FY10 Food Security Implementation Plan (FSIP), ACCESO (the Spanish word for Access) is the USG's primary FTF program in Honduras. It will implement the core elements of all aspects of the strategy outlined above. ACCESO has been designed as a comprehensive, integrated program that will move 30,000 rural households, including 18,000 extremely poor households, out of poverty through private sector opportunities tied to two target value chains. As reflected in this strategy, ACCESO will focus on expanding the horticultural and specialty coffee value chains in the target region of western Honduras.

ACCESO also has a specific component that focuses on integrating women into new economic opportunities. The Program additionally, innovatively incorporates an FTF-funded nutrition component that is closely integrated with agricultural activities. Reducing vulnerability to climate change through improved farm and community-level natural resource management and disaster preparedness is a cross-cutting focus. As in this strategy, ACCESO also includes a key emphasis on identifying and addressing the most critical policy constraints to market-led agricultural development for rural farmers in the poorest regions of Honduras.

ACCESO was competitively solicited under USAID's RAISE Plus IQC. This IQC was selected for several reasons. First, with the end of MCC, USAID and Title II agricultural programs in Honduras in 2010, there was a sense of urgency about initiating a program capable of capitalizing on prior investments on a scale that was consistent with the FTF vision for impacting extreme poverty and malnutrition. Second, as a result of the Honduras political crisis, USAID procurement plans were on hold from mid-2009 through the summer of FY 2010. Accordingly, by the end of FY 2010, the Mission was under heightened pressure to support Honduras's new, democratically-elected government by establishing a new, post-crisis portfolio as quickly as possible and addressing Honduras's acute development issues, including those that provided the enabling environment for the 2009 coup.

The ACCESO program contract was awarded in March 2011 to the U.S. firm Fintrac Inc., as the prime implementer of the program. Fintrac's contract includes sub-contracts with five of Honduras's most capable organizations. These partners include Zamorano (one of Latin America's leading agricultural universities), the Honduran Foundation for Agricultural Research (FHIA), the Foundation for Rural Business Development (FUNDER – a local NGO), CARE Honduras, and Aldea Global Honduras.

While the lead implementer brings market knowledge and a proven capacity to deliver private sector results; technical assistance at the household, farm, and firm level is provided by local partners with a long-term stake in growing market opportunities. ACCESO will also build national capacity and ensure sustainability by partnering with a network of over 20 community-based NGOs and a broad private sector network of over 80 agricultural-related companies and financial institutions. The contract additionally includes a large (\$4 million) sub-grants mechanism to support local partnerships and ensure institutional synergies, capacity building, and results-based performance across all implementing partners.

ACCESO's tight geographic focus will reduce the transaction costs of delivering assistance and increase the multiplier impact of interventions, by making one farmer's new income his or her neighbor's new business opportunity. This concentrated investment will ultimately create economies of scale that will enhance the targeted value chains' overall competitiveness and long-term sustained growth.

The USAID ACCESO Program will be supported by several complementary USAID efforts. This includes a set of two Development Credit Authority (DCA) guarantees that are currently under development. The first, an agreement with a local microfinance organization, is based in the target region and is centered on women's business development. The second is with a large commercial bank to provide financing to intermediary companies in the FTF targeted value chains.

As a participant in the new Central American Regional FTF Wal-Mart-USAID public-private partnership, Honduras is poised to welcome one of the most important national, regional, and global horticulture buyers into the ACCESO program as a key strategic partner. An alliance with a major specialty coffee retailer is also being explored.

A concerted effort is being made to link Honduras, through ACCESO, to relevant global agricultural research to increase agricultural competitiveness and food security. Potential research partners include several Collaborative Research Support Programs (CRSPs) that are active in Honduras, including the Integrated Pest Management (IPM) and Horticulture CRSPs, and the main Latin American Consultative Group on International Agricultural Research (CGIAR) centers in Colombia and Mexico.

The USAID Mission is exploring the possibility of establishing an ACCESO steering committee to include representatives from the GOH, Honduran private sector, civil society, and donor communities. ACCESO partners would present bi-annual progress reports to the steering committee, to provide this broader group of stakeholders a larger role in program implementation.

USAID Local Technical Assistance Unit for Health Project (ULAT)

To secure the long-term sustainability of investments in nutrition, FTF resources will be used to ensure that the full range of community-level nutrition services are completely incorporated into the Ministry of Health's decentralized performance-based contracts. These contracts transfer the implementation of services to local NGOs and municipal governments, allowing the MOH to more effectively monitor the quality and standards of care to guarantee that communities have full access to a basic package of health services. Through the Ministry of Health's active Health Sector Reform efforts, decentralized service delivery contracts will be scaled-up over the next three years, starting with the same departments that have been prioritized in the Mission's FTF strategy. With USAID technical assistance, the Ministry of Health will implement the services, performance measures, and monitoring and payment strategies necessary to ensure the long-term provision and sustained impact of these basic nutrition services.

4.1.2 USAID Forward Procurement Reform

To further enhance implementation of this strategy, USAID is exploring complementary activities for award through pilot procurement reform mechanisms. These include:

- A direct, grant-based "venture fund" to compete proposals for incorporating innovative information technology applications into our program.
- A Public International Organization (PIO) grant to IFPRI to serve as a third-party impact evaluation partner. This would be a "buy-in" to the EGAT-based World Bank/CGIAR PIO agreement.
- Contribution to a host country system, multi-donor effort to fund the first national agricultural survey in over 15 years. This would be implemented through the Honduran National Statistics Institute.

- Participation in a Central American regional inter-agency agreement with USDA to address sanitary and phytosanitary issues in the targeted value chains.

4.1.3 U.S. Department of Agriculture – Food for Progress

In FY 2010 USDA gave a \$7.5 million Food for Progress (FFP) donation to Finca International to provide microfinancing to agricultural businesses. In FY 2011, USDA is in the process of awarding a new government-to-government \$7.5 million food aid grant for capacity building in the Ministry of Agriculture, including continued strengthening of SENASA, the unit responsible for Sanitary and Phytosanitary compliance.

4.2 OTHER RELATED USAID INVESTMENTS

Economic Growth & Environment

The Mission's non-FTF economic growth resources will fund a new 5-year environmental program called PROPARQUE. The program will strengthen national biodiversity conservation and climate change efforts by linking economic opportunities in the tourism sector to improved management of the national protected area system. PROPARQUE also has an important renewable energy sub-component. Two of the ten targeted protected areas/regions are within the FTF focus region, presenting an opportunity for direct synergies with ACCESO.

Health & Education

USAID provides technical assistance to the multi-donor Health System Decentralization Program. This Program will directly advance the decentralization of GOH maternal and child health services in the FTF target region. Efforts to decentralize the education sector are currently under discussion. USAID's education program focuses primarily on quality issues in the national school system, including the FTF target region.

Democracy & Governance (DG)

A major focus of the Mission's new DG Program is local citizen participation in the decentralization of key government services (health, education, etc.). Strengthened citizen participation in ensuring the quality of health services in the FTF target region directly supports the nutrition component of this FTF strategy. The DG Program also includes a municipal infrastructure program with the GOH Rural Infrastructure Agency, to support drinking water and waste water treatment systems in the FTF target region.

Security & Counter-Narcotics

USAID implements the prevention side of the Central America Regional Security Initiative (CARSI) in Honduras. Efforts focus on creating workforce development opportunities for youth at risk, as alternatives to involvement in gang and narco-trafficking activities. While programs concentrate on the major urban areas of Honduras, opportunities may exist to leverage these efforts for youth in the target region. USAID also co-chairs, with the U.S. military, a coordinated program in the remote Mosquitia region of Honduras, the main drug interdiction area for Central America. Successful FTF approaches in the West may lend themselves to duplication in the Mosquitia, where they could provide alternatives to drug trafficking. Conversely, new income opportunities in the FTF target region may help stem migration and limit the number of vulnerable youths in the cities.

5. MONITORING AND EVALUATION

USAID Honduras is developing a monitoring and evaluation (M&E) plan based on FTF Initiative guidance and new USAID Evaluation policy. The purpose of the plan is to establish a clear, standardized methodology for obtaining reliable data to measure quantitative and qualitative changes derived from FTF interventions. The plan would also systematize the analysis of this information and assessment of progress toward achieving FTF goals and objectives. The monitoring plan will be based on the FTF Results Framework presented above. Essential data for FTF indicators required by the Initiative, Foreign Assistance Framework standard indicators, and Mission custom indicators will also be collected at appropriate intervals to measure progress and impact.

The M&E plan will address both performance monitoring and impact evaluation needs. Performance monitoring will focus on periodic collection of information to track program implementation and results. Impact evaluation efforts will focus on assessing the development hypothesis and measuring the achievement of expected goal level results, particularly reductions in poverty and chronic malnutrition in the target region. A third-party M&E partner will conduct the impact evaluation, including establishing a baseline at project start-up and designing the evaluation to closely link the performance monitoring with the impact evaluation. Intermediate Result indicator data will be collected as part of the project implementation monitoring process and will serve as an input for the impact evaluation. High level indicator data will be collected as part of the impact evaluation. This process will allow managers and implementers to assess the results of FTF investments and generate new knowledge to improve future programming.

5.1 BASELINE

A baseline will be established at project start-up for all indicators (standard and custom) to ascertain the pre-project status of each indicator in the six targeted departments. This baseline will be used as a reference for both the performance monitoring and impact evaluation. In addition to data collected through surveys and field visits, information from the national census (Population, Ag and Health Census) will also be used, particularly for high-level indicators. The baseline will also be measured for a control group (no-project) to assess attribution in the impact evaluation.

5.2 PERFORMANCE MONITORING

Performance monitoring will be managed chiefly by FTF implementers and the Mission Activity Manager. Accordingly, the ACCESO implementer's Performance and Management Plan (PMP) will be the primary basis for performance monitoring. The PMP will include: baseline data for outcome indicators (IR level), along with associated end-of-program targets, intermediary performance measures and means of verification, and data source and collection methodologies for each indicator. The implementer will be responsible for data collection using qualitative and quantitative methods to obtain reliable and high quality data. For all indicators, data quality assessments will be verified on year one and year four of implementation, which will complement field monitoring by the Mission. A third-party M&E partner will validate key performance monitoring indicator data for the baseline and final results in conjunction with impact evaluation surveys.

USAID will focus on verifying that data is collected and registered correctly and that it is reliable for making management decisions. Semi-annual portfolio reviews, along with quarterly project reporting and field monitoring, will allow the Mission to assess performance, review and revise approaches as necessary, and address any issues that may arise. This will ensure that FTF goals and targets are achieved in a timely and effective manner.

5.3 IMPACT EVALUATION

Impact will be measured by Goal and Key Objective indicators and associated targets at IR level. Impact evaluation will be conducted by a third party organization with demonstrated global leadership in such evaluations. The M&E partner will work in close collaboration with both the main FTF implementers and Honduras's National Statistics Institute (INE). The M&E partner will perform the baseline validation and final impact evaluation. Impact evaluation data will be obtained from sample household surveys collected directly from beneficiaries, to ensure reliability and statistical validity. Poverty impact will be measured in conjunction with the INE bi-annual poverty survey. However, as this survey only measures national level data, the M&E partner will have to design a sample and apply the survey in the target region to get departmental and municipal level results. Since indicators at the IR and Sub IR level will be collected regularly and consistently during project implementation, the M&E partner will use this data as complementary input to evaluate impact, establish causality, identify lessons learned and document the success factors of the development hypothesis, as well as recommendations for future programming in the region.

Similarly, the national Demographic Health Survey (DHS) that is implemented by INE, the Ministry of Health, and donors will have to be extended from the departmental to the municipal level to measure high-level nutrition impact in the target region. For both of these surveys, if financially and technically feasible, a control group will be included to assess FTF attribution. Where possible, the impact evaluation will be done collaboratively with other donors who are interested in more granular poverty and health statistics. Evaluation design will also be designed to evaluate gender impact and to be gender-sensitive, in order to provide conclusions about the success of the gender implementation plan.

5.4 STAFFING FOR MONITORING AND EVALUATION

FTF implementation will benefit from the USAID/Honduras Mission-wide M&E Working Group. The Economic Growth Office, which is leading FTF implementation, has two experienced specialists on the Working Group, who will be supported by the Mission's M&E Officer in the Program Office. Field monitoring will mainly be conducted by three Project Management Specialists -- two of whom have extensive experience in food security program implementation, and the third of whom has market-based programming experience. The team will also receive support on nutrition component monitoring from the Health Office's Nutrition Specialist.

6. FINANCIAL AND MANAGEMENT PLANNING

6.1 FINANCIAL PLAN

To date, USAID has signed two contracts to implement 46 percent of total budgeted FTF resources, or 100 percent of the baseline (straight-line of FY10) funding scenario. It is recognized that the current budget environment is highly uncertain. As a result, no additional commitments will be made until there is an approved FY 2011 budget.

6.2 MANAGEMENT PLAN

The USAID Office of Economic Growth (EG) is currently adequately staffed to manage the implementation of this strategy. The EG Office is also supported by a fully staffed Health Office Team, in which a member of the Maternal and Child Health Team has been designated the FTF Health Coordinator.

Additional human resources supporting FTF implementation include: 1) Post's Economic Section of Economic Officers and a local-hire USDA Foreign Agricultural Service representative; 2) USAID's Communications Team, which works in close concert with State's Public Affairs Section; 3) USAID's M&E Officer and Mission Economist; and 4) Post Senior Leadership, including the U.S. Ambassador and the USAID Mission Director.