MEMORANDUM

November 1, 1991

To: Selma Padrón, CPD/ Honduras
From: Richard Hough, AUDD/AIFLD Wash.
Subject: Preparation of new agrarian project proposal

In a sense, until we are able to clarify with the USAID a number of the soft, outstanding questions on the proposal which we have talked about at great length, this memo is tentative, in no way definitive. Perhaps, if I am able to talk with Lee Arbuckle before I leave, some of the clouds that hang over the new project may be lifted. However, I suspect that we will not see clearly where we are going until you review the findings/recommendations of the USAID overall project design team, or receive an equivalent briefing.

With this qualification, let me set-out some basic points as well as a number of suggestions.

First, with regard to the funding instrument, we strongly prefer the status quo ante, that is, a direct local currency grant account separated from the array of other institutional recipients under the umbrella Small Farmer Organization Strengthening project. Further, as we have discussed, we have no problem if we make
funding requests to the USAID which then authorizes the release of funds in the Central Bank project account, as is the case now, or alternatively make our request directly to the Central Bank, eliminating the intermediary role of the USAID. However, we should resist the proposal that a Honduran government ministry replace the USAID as the fund authorizing agent, as is apparently now under discussion. Ultimately, it would be difficult to hold out against this proposition if pressed hard, since Honduran government-owned currency is funding our project. However, if we take a firm position on this up-front, in the beginning of our discussions with the USAID, maybe we can finesse a positive result, avoiding a fight that in the end we would probably lose.

Second, if the funding level of the overall Small Farmer Organization Strengthening project is in range of $10 million, 7 million in US dollars and 3 million in PL480-generated local currency, then we should stake-out a position that the AIFLD/ANACH cut of this pie should be about $2 million equivalent in Lempiras, not including any financial support that the ANACH regional multi-service cooperatives might receive from the FDF. I suspect that we are going to need at least this volume of financial resources if we are serious about progressively integrating ANACH/Central within the project by providing the wherewithal to support the development of ANACH services to the CARS. Further, we should be on the liberal side in calculating our own project support costs, giving you the room for some expansion of staff, particularly field staff. As you know, the Evaluation Report specifically makes the finding that our field coverage on the project is inadequate and needs to be augmented.

We should premise the development of our project proposal on two program priorities: 1) the functional reintegration of ANACH with its cooperatives and 2) the "graduation" of an appropriate number of the CARS to the services of the FDF.

The conception of the Fondo de Desarrollo Financiero (FDF) which I suggest we follow in our proposal is that of a management services consultant firm, the tactic being that the initiative would be reserved to ANACH to request services from the FDF. If there is no request from ANACH or one of its CARS, FDF
would have no authority to intervene. I am sure that the USAID has a broader and more authoritative role in mind for the FDF particularly for those CARS which have "graduated". However, we do not know what the design team is proposing with regard to the project role of the FDF. In short, we still have an open question. Nothing is decided. Should not we try to maintain as much space between ANACH and its cooperatives, principally CARCOMAL, and the FDF until we have a better fix on how this new arrangement is going to work? We do not want to inadvertently invite a larger role for FDF and then find that the organization doesn't perform well, or that its presence is counterproductive.

With respect to the specific services that the FDF could provide to ANACH/Central, I would propose that we begin modestly. For example, a soundly-conceived training program for the professional personnel in the Secretariats of Finance and Cooperatives would be the type of activity we should be aiming at.

Notwithstanding how the question of FDF’s role is finally resolved, we should in no way compromise the present ANACH field staff working with the "bases" of the CARS which the project supports. In particular, the current number of field agronomists should be at least maintained in the new proposal. Depending on the number of CARS which are targeted for "graduation", the number of agronomists and para-técnicos could indeed be augmented. The basic point is that what has apparently been the most effective component of the present project, decentralized technical assistance continuously provided by professional staff located in the field rather than in Sam Pedro Sula, should not be changed, or tinkered with, so to allow for a larger technical role for ANACH/ Central or conceivably FDF. Lee Arbuckle appeared to agree with this point in our phone call.

The selection or the individual cooperatives, and the appropriate number, that will be programmed for graduation during the life of the project obviously is a key one for the entire proposal. The number has to be sufficient to justify an ample budget. At the same time, there is need for prudence; not to overcommit to a concept, "graduation", and to an organization, FDF,
whose performance thus far does not warrant particular confidence. The best approach would appear to be to make a realistic assessment, one cooperative at a time, making comparative judgments as to professional leadership capability, agricultural production and marketing potential, financial management performance, executive committee commitment, etc. I am sure Herman and Miguel know the appropriate standards to apply. However, you should fudge your selections, allowing room for adjustments against future contingencies.

In light of the uncertain role of BANDESA in providing seasonal production credit to the agrarian sector, that is, to small farmers organized in cooperatives, and that in the new overall USAID Small Farmer project, FDF will not be a supplier of such credit, our proposal should emphasize that the ANACH cooperatives simply cannot subsist without access to credit. If not BANDESA or FDF, some other source of short term money must be made available for the agrarian sector.

The AIFLD/ANACH proposal has to reflect a strategy of integrating ANACH more directly into the work of its cooperatives. As we both know, this is key to the political success of our project -- to strengthen ANACH/Central as a national campesino movement. Without belaboring points that we talked about at some length last week, I suggest that we make this link between ANACH and the CARS essentially thru the services channel. Herman appears to have sound ideas as to how to do this, e.g. giving the Centro the responsibility for developing and then negotiating the production inputs requirements for all the cooperatives, as well as ANACH-administered training and education programs of various kinds. The point is here, however, that whatever the most feasible and effective service programs may be, the broader framework of what we are about concerning a more integrative role for ANACH/ Central should be apparent in the proposal, specifically for the edification of the USAID.

As we noted, the ANACH Encuesta indicated unsecured land tenure conditions for much of the lands physically under the control of the CARS. Given the current unstable patterns of land
right conflicts in many of the rural areas of Honduras, particularly the increasingly aggressive "land grabbing" role of the Honduran military, we should examine the possibilities of developing a land titling program for the ANACH Cooperatives. I say this notwithstanding the apparent major problems and dangers that would be involved, as pointed by Miguel Sierra, in a program of this kind. We should at least explore the legal, political and technical feasibility of such a program. The dangers that may lurk in the future for ANACH Cooperatives that only have usufruct rights to their lands, whether public lands or private lands, are too large to just ignore the issue. I propose that we begin work on this by budgeting some consultant services in the area of, say, Land Title Appraisal.

I would lastly note that the proposal should be carefully reviewed with the leadership of ANACH. This does not have to be done on the first draft. But at the propitious time, such a review will be useful in facilitating later cooperation when we arrive at implementation. We should learn from our past experience.

cc: Jim Holway