



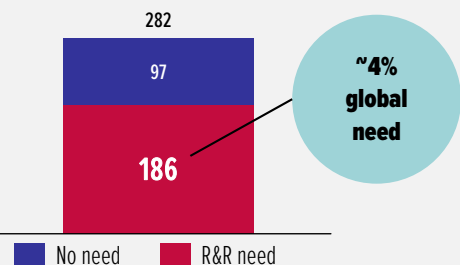
Honduras is a major regional producer with significant R&R need due to old trees and a recent *La Roya* outbreak

Quick facts: Honduras is the 3rd largest Latin America producer

Production '000 tons	Production share Global & region	Coffee land '000 hectares	Varieties Arabica-Robusta
282	6th in world 3rd in LA	301	100% A 0% R

R&R need: ~70% of total land is in need of R&R

SHF land in R&R need out of all land
'000 hectares



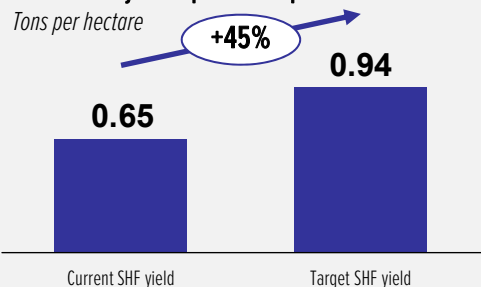
Drivers of R&R need:



Need is primarily driven by old trees and exposure to disease (*La Roya* affected ~25% of coffee growing areas). Climate change also has the potential to negatively affect Honduras – especially in the central region

Uplift potential: Some potential for SHFs, but less impact on total supply

Current SHF yield & potential uplift¹



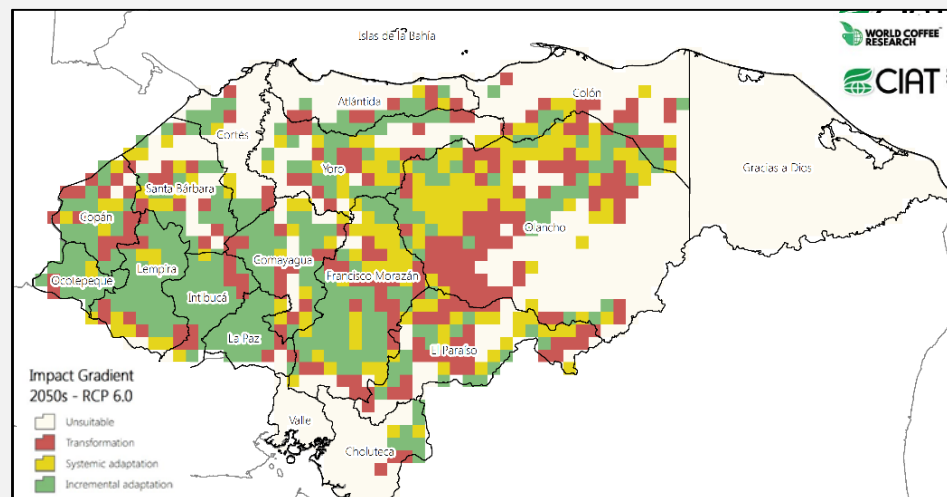
Potential increase in supply

~5-20%

Total national supply could increase ~5-25% if R&R and GAP is implemented on all SHF land in need of R&R²

Viability: Climate change could severely impact Honduras

Suitability map



- The climate change projections indicate that Honduras could be severely affected by increasing temperatures
- Especially in central Honduras, significant portions of land could become unsuitable for Arabica coffee in the future

Other viability considerations

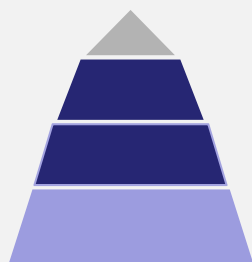
- Farmer share of the export price is around 75%, with local intermediaries playing a significant role in the value chain
- Honduras is a growing player in the field of specialty coffee. Honduras could meet part of the high quality Arabica coffee demand, especially for the US market
- Labor cost is on average USD 845/ha, about half the labor cost in Colombia

Notes: (1) The current yield is calculated on the basis of SHF production divided by SHF land area, the potential yield uplift comes from the GCP study on Honduras: GCP, Honduras: GCP: Economic Viability of Coffee farming, 2017. (2) Rounded to the nearest 5%, estimate assumes that R&R and GAP increase yields with 45%, and the range reflects a 25-100% R&R success rate Sources Sources: Source: FAO Statistics database; ICO statistics; GCP and Technoserve, Economic Viability of Coffee Farming, 2017; Root Capital, Learning Report: the CFIR, 2016; USDA, Annual Coffee Report, 2017; IHCAFE, Programa de Asistencia al Pequeño Productor, 2017; IHCAFE, El sector café de Honduras: avances, institucionalidades and desafíos, 2017; Dalberg Interview



Honduras' relatively well-organized coffee institutions have led several renovation programs targeting SHFs

SHF segmentation: Most SHFs are in tight and loose value chains



SHFs
'000

96 (includes SHFs <7hectares – 2% of global SHFs¹)

SHF land
'000 hectares

265 (~90% of national land) – farm size typically <3 hectares

SHF production
'000 tons

181 (~65% of national production)

Assessment of SHF
orgs.

All coops are registered by IHCAFE¹ ~40% of SHFs are linked to coops. Coops have low capacity to deliver TA.

Links to market

SHFs are registered by IHCAFE

Majority of national production comes from SHFs, though less so than other countries

The majority of SHFs are either in tight or loose value chains. IHCAFE reaches most of the SHFs.

Enabling environment for R&R: Relatively well organized coffee sector

Political environment



Availability of inputs



Availability of finance



Knowledge availability



- Coffee share of GDP: 3.7% (2012)
- Well organized sector since 2000: privatization of IHCAFE and creation of the regulatory authority (National Council of Coffee, NCC)
- In 2004, a producer savings trust fund was established to help improve farm productivity. The funds are partly used to finance R&R²
- IHCAFE produces seeds, but does not have capacity to produce at commercial volumes
- Many farmers produce their own seeds that are typically of low quality
- Seeds may be imported from Nicaragua, but the certification process is slow
- Low access to commercial bank loans for SHFs
- Several R&R programs enable SHFs to access grants or long-term finance at concessional rates
- Coffee institutions provide extension services at national, regional, and district level. However, these public extension services do not currently meet the demand and need of SHFs
- Some cooperatives provide TA, though many do not

Examples of R&R programs: Past R&R programs have focused on providing access to long-term concessional finance for renovation

- **IHCAFE – Programa de Apoyo al Pequeno Productor** and **Programa de Emergencia al Pequeno Productor** (since 2007): IHCAFE and the government provided highly concessional loans, technical assistance, and inputs to the least productive SHFs affected by *La Roya* to renovate their lands
- **Root Capital – Coffee Farmer Resilience Initiative** (since 2013): Root Capital lent USD 1.5 million to farmer organizations in Honduras and trained them to deliver loans to their members
- **Grupo Caldega - Programa de Produccion sostenible de Café** (2015-2020): The purpose of the program is to renovate 1 million trees and to provide TA to 50,000 SHFs

Notes: (1) Instituto Hondunero del Café; (2) The collection mechanism of the coffee producer savings fund is through a tax of USD 13.25/quintal exported. Of this sum, USD 9 is used for the Coffee Trust Fund (Fondo Cafetero Nacional, FNC) to repay the loans helps by banks and used by producers, and to pay IHCAFE for inputs sold to producers. Source: FAO Statistics database; ICO statistics; GCP and Technoserve, Economic Viability of Coffee Farming, 2017; Root Capital, Learning Report: the CFIR, 2016; USDA, Annual Coffee Report, 2017; IHCAFE, Programa de Asistencia al Pequeno Productor, 2017; IHCAFE, El sector café de Honduras: avances, institucionalidades and desafios, 2017; Dalberg Interview