

CASE STUDY 3 | Government blended finance program in Honduras



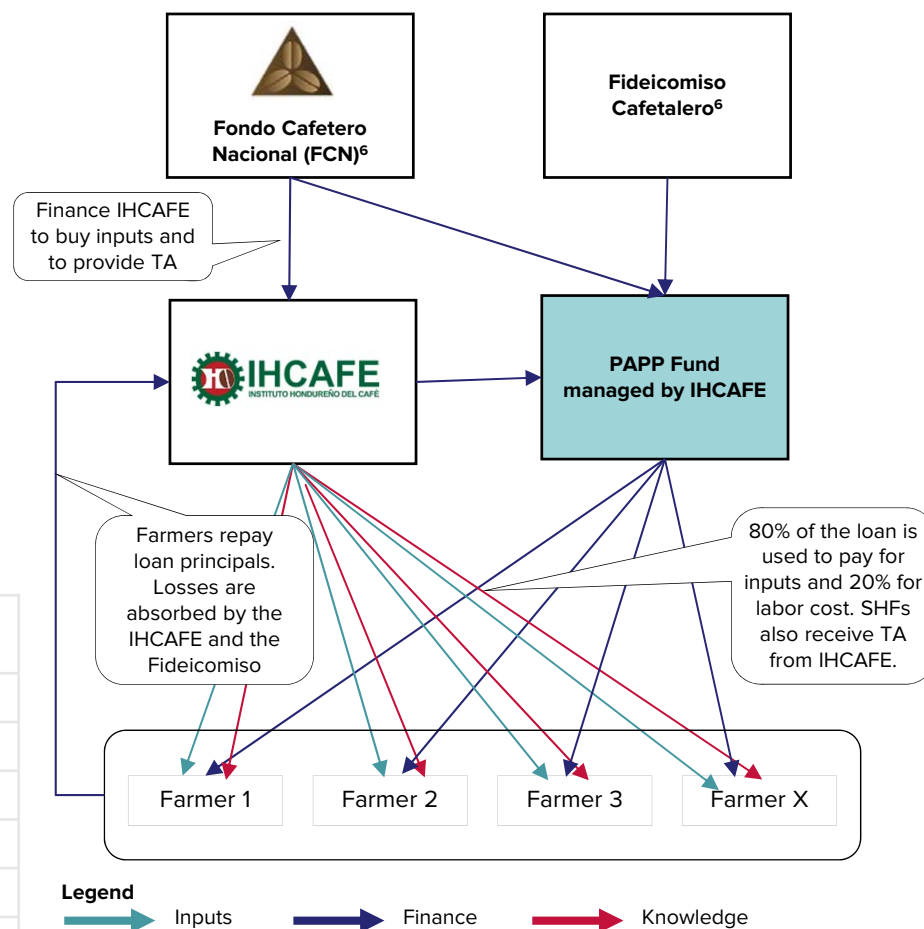
A blended finance government program enabled the smallest most disconnected SHFs in Honduras to renovate their land



Programa de Apoyo al Pequeño Productor (PAPP) - IHCAFE

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|--|---|-----------|---|----------|------------------------|-------|---------|--------------|---------|---------------|-----------------|-----------|--------------------------------|--------------|--------------------------|
| R&R type | Loan-based renovation | | | | | | | | | | | | | | |
| Country | Honduras | | | | | | | | | | | | | | |
| Cost | USD 12.5 millions | | | | | | | | | | | | | | |
| Dates | 2007/08 – present (no set end date) | | | | | | | | | | | | | | |
| Project context | <ul style="list-style-type: none"> Coffee trees in Honduras have been affected by <i>La Roya</i> and about 60% have passed their productivity peak. | | | | | | | | | | | | | | |
| Objectives, activities, and results | <ul style="list-style-type: none"> The PAPP was created following a government decree on the reactivation of the coffee sector¹. The program targets a reduction of the poverty at farmer family level through an increase of revenues from coffee production. The PAPP is a three phased-program. 22,827 SHFs were reached and 15,500 ha were renovated. Value creation: increased yields of least productive SHFs and improved livelihoods. Value capture: the program finances a public good. The value is yet to be captured by the financiers. | | | | | | | | | | | | | | |
| Loan details | <table border="1"> <tr> <td>Borrowers</td> <td>SHFs producing <1.5 tons (phase 1) SHFs producing <3 tons (phase 2-4)²</td> </tr> <tr> <td>Currency</td> <td>HLN (Honduran Lempira)</td> </tr> <tr> <td>Tenor</td> <td>6 years</td> </tr> <tr> <td>Grace period</td> <td>3 years</td> </tr> <tr> <td>Interest rate</td> <td>0%³</td> </tr> <tr> <td>Loan size</td> <td>USD 540 – USD 860⁴</td> </tr> <tr> <td>Default rate</td> <td>Average 30%⁵</td> </tr> </table> | Borrowers | SHFs producing <1.5 tons (phase 1) SHFs producing <3 tons (phase 2-4) ² | Currency | HLN (Honduran Lempira) | Tenor | 6 years | Grace period | 3 years | Interest rate | 0% ³ | Loan size | USD 540 – USD 860 ⁴ | Default rate | Average 30% ⁵ |
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Figure 1: Financial structure of the project and input delivery model



Notes: (1) Decree N.56-2007, *Ley de Reactivación del Sector Cafetalero*. (2) On average, a production below 1.5 tons corresponds to a farm size below 1 ha. (3) Interests are fully subsidized by the IHCAFE and the Fideicomiso Cafetalero. (4) HLN 12,500 to HLN 20,000 (5) Default rate were higher during the first phase of the program (42%), 26% during phase 2, and 6% during phase 3. (6) The Fideicomiso Cafetalero are funded through a tax of USD 9.00/quintal of coffee exported. Source: IHCAFE, *Programa de Apoyo al Pequeño Productor*, 2017; IHCAFE, *El sector Café de Honduras: Avances, Institucionalidades y Desafíos*, 2017; Dalberg Interviews

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| Project context | | Management of the three R&R components | |
|-----------------------------------|---|--|--|
| <p>Coffee viability</p> | <ul style="list-style-type: none"> Viability: Honduras has seen an increase in production in the past years, but there is still potential to improve yields by 45%, including through renovation and rehabilitation. Willingness: SHFs benefitting from the program must have coffee as their main crop and comply with the Code of Conduct of the PAPP. | <p>Inputs</p> | <ul style="list-style-type: none"> Providers: IHCAFE Challenges faced: SHFs need renovation package including upfront inputs (seedlings and fertilizers) and ongoing inputs (fertilizers). Solution: 80% of the loan value is used to pay IHCAFE for inputs (seedlings and fertilizers). IHCAFE recommends varieties produced by local institutions and distributes them to farmers. The remaining 20% are used to pay for labor costs. |
| <p>Farmer segmentation</p> | <ul style="list-style-type: none"> Country situation: 95% of coffee producers in Honduras are SHFs with less than 7 ha. More than 60% produce less than 1.5 tons of green coffee each year. Program segmentation: Grants were provided to the least productive SHFs during phase 1 of the program. The program was then expanded to more productive farmers (less than 3 tons/year), who often belong to loose-value chains | <p>Finance</p> | <ul style="list-style-type: none"> Providers: Fideicomiso Cafetalero. Challenges faced: The PAPP serves the farmers with the lowest financial capacity. Default rate averages 30%, . Solution: Loans are highly concessional. The Fideicomiso-IHCAFE absorbs financial losses. The PAPP tries to improve its recovery rate. It is currently implementing a study¹ to segment defaulting farmers, to understand causes of default and to design adaptation strategies. |
| <p>R&R need</p> | <ul style="list-style-type: none"> Country situation: Honduras was seriously affected by <i>La Roya</i>. About 187,000 ha (more than 70%) of the coffee trees would benefit from renovation or rehabilitation. Program objectives: The program enabled the renovation of 15,500 ha among the poorest and least productive farmers. | <p>Knowledge</p> | <ul style="list-style-type: none"> Providers: IHCAFE agencies² Challenges faced: The least productive SHFs have the highest TA needs. The cost of TA is higher for the bottom of the pyramid. Solution: IHCAFE delivers TA to farmers through individual or group training. The PAPP wants to develop a differentiated Technical Assistance and Capacitation plan to better understand the personalized needs of farmers. |

Lessons learned

- Reaching SHFs at the bottom of the pyramid requires a specific program design that cannot be made on a commercial basis:** SHFs reached by the PAPP have low or no connection to the market and have a low capacity to repay their loan. A program targeting this category cannot reach commercial viability. It should aim at creating positive social and economic impact.
- Technical assistance for these beneficiaries should be intensive and designed:** Providing TA to SHFs at the bottom of the pyramid is costly. Understanding precisely their needs and how to best answer them is crucial to reduce the costs of the project and to ensure a successful implementation.

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