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LAC-IEE-05-31

ENVIRONMENTAL THRESHOLD DECISION

Country: Honduras

Activity Title: Economic Freedom: Open Diversified and Expanding Economy (ODEE)

Activity Number: 522-0431

Life of Project: FY 2003 – FY 2008

Life of Project Funding: \$48,550,000

IEE Prepared by: Peter Hearne, MEO, Ann DeLong
Greenberg, Ricardo Lardizabal

Recommended Threshold Decision: Negative Determination with Conditions

Bureau Threshold Decision: Concurs with recommendation

Comments:

This **Environmental Threshold Decision** amends the previous decision (LAC-IEE-03-64, see attached) for the USAID/Honduras Economic Freedom: Open Diversified and Expanding Economy (ODEE) Strategic Objective and its Fintrac/CDA activity (Center for Agribusiness Development or *Centro de Desarrollo de Agronegocios* in Spanish). In accordance with USAID Pesticide Procedures (22 CFR 216.3(b), a **Negative Determination with conditions** is issued covering the use of certain pesticides with the Fintrac/CDA Activity according to its Pesticide Evaluation Report and Safer Use Action Plan (PERSUAP), September 2004.

The following conditions will apply to this decision:

1. All mitigation, monitoring, training and safety procedures established in the Pesticide Evaluation Report and Safer Use Action Plan (PERSUAP) prepared by Ann DeLong Greenberg and Ricardo Lardizabal, September 2004, for the Fintrac/CDA Project will be strictly adhered to.
2. The use of all Restricted Use Pesticides (RUPs) in association with this Fintrac activity will be phased out by October 28, 2005. Any further use of RUPs will require an Environmental Assessment as significant adverse environmental impacts may be occur due to their use.
3. Fintrac/CDA will submit a supplemental PERSUAP for any additional pesticides to be used with the activity. The supplemental PERSUAP will comprise a supplemental Initial Environmental Examination following USAID Pesticide Procedures.
4. Fintrac/CDA will prepare an annual report at the end of each fiscal year (September 30, 2005 will be the first) reviewing and summarizing the implementation of procedures established in the PERSUAP for approval by the activity's Cognizant Technical Officer and Mission Environmental Officer (MEO) with a copy to the Regional Environmental Advisor (REA) and Bureau Environmental Officer (BEO).
5. Fintrac/CDA should evaluate the possibility of organic certification of its beneficiaries' farms and explore markets for organic products to avoid the use of any harmful pesticides while benefiting farmers by tapping into the growing market for organic and other specialty agricultural products.
6. The MEO and REA will review the Fintrac/CDA activity and the implementation of its PERSUAP in the field at least once per year.
7. CTOs are responsible for ensuring that environmental conditions are met.
8. It is the responsibility of the SO Team to make certain that activity-related SOAGs, MAARDs and contracting documents contain specific instructions reflecting this Threshold Decision, including the provision of (and any necessary training in the use of) the PERSUAP and related guidelines.

_____ Date _____

Victor H. Bullen
Bureau Environmental Officer
Bureau for Latin America & the Caribbean

Copy to: Paul Tuebner, Mission Director,
USAID/Honduras

Copy to: Meter Hearne, MEO, USAID/Honduras,
Leyla Gaytan, TEA, Chris Cushing, SPS

Copy to; Michael Donald, Regional
Environmental Advisor, USAID/DR

Copy to: David Jessee, LAC/CAM
Laura Libanati, LAC/CAM

Copy to: IEE File

Attachment: IEE

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PERSUAP amend).doc



LAC-IEE-03-64

ENVIRONMENTAL THRESHOLD DECISION

Activity Location	: Honduras
Activity Title	: Economic Freedom: Open Diversified and Expanding Economy (ODEE)
Activity Number	: 522-0431
Funding	: \$48,550,000
Life of Activity	: FY 2003 – 2008
IEE Prepared by	: Peter Hearne, MEO Carlos Solis, SPS
Recommended Threshold Decision	: Categorical Exclusion Negative Determination with Conditions
Bureau Threshold Decision	: Concur with Recommendation

Comments:

This Strategic Objective will involve the following:

- 1) Support to the Government of Honduras (GOH), other levels of the public sector, and the private sector, to understand and disseminate information on the context and process of international trade negotiations.
- 2) Help the GOH improve policies to reduce barriers to trade, investment and market integration, and help private firms adjust to new free trade rules and regulations.
- 3) Macro-economic and financial policy formulation assistance to the GOH.
- 4) Technical assistance to micro-, small- and medium-sized enterprises to help them diversify and compete more effectively in local, regional and international markets, including information sharing, access to credit, adaptive research on methods of cost reductions and technology enhancements, and technical assistance in agricultural production and post-harvesting technologies.

Pursuant to 22 CFR 216.2(c)(2)(i), (iii) and (xiv), a **Categorical Exclusion** is granted to these activities involving technical assistance and training, analyses, and projects to develop the capability of the recipient country to engage in development planning, as described in the IEE that will not have an impact on the natural or physical environment.

A Negative Determination with Conditions is issued for all activities involving technical assistance on agricultural production and post-harvesting technologies. These activities will be subject to strict compliance with integrated pest management and pesticide use guidelines and procedures already approved by Environmental Threshold Decision LAC-IEE-02-01. Furthermore, all activities supporting or recommending the limited and safe application of pesticides will be based on the U.S. Environmental Protection Agency (USEPA) regulations and list of approved pesticides. The MEO and technical officers will monitor compliance by all activity partners, as part of the monitoring and evaluation of the Program.

Furthermore, the following language will be included in the Grant Agreement, and in all contracts and agreements under this activity:

“The Grantees and/or Contractors agree that all activities funded under this Agreement will comply with all environmental requirements applicable to USAID-financed activities, including those set forth in Title 22 of the United States Code of Federal Regulations Part 216. Implementation Letters may be issued by USAID from time to time to establish such requirements and the procedures and/or mechanisms to be used to insure full compliance with such requirement by the Grantee and any other organization receiving Grant funds under this Agreement. [Specifically: 22CFR216.3(b)(1)(a-1), which requires preparation of Pesticide Evaluation Report(s) and Safe Use Action Plans for each pesticide intended for use.]

_____ Date 8-20-

03]

J. Paul des Rosiers
Acting Bureau Environmental Officer
Bureau for Latin America & the Caribbean

Copy to : Paul Tuebner, Director, USAID/Honduras

Copy to : Peter Hearne, MEO, USAID/Honduras

Copy to : Carey Yeager, Acting REA

Copy to : Aler Grubbs, LAC/CAM

Copy to : IEE File

INITIAL ENVIRONMENTAL EXAMINATION

Activity Location: Honduras

Activity Title: "Economic Freedom: Open, Diversified and Expanding Economy" (ODEE)

Activity Number: 522-0431

Funding: \$48,550,000

Life of Activity: FY2003 – 2008

IEE Prepared by: Peter Hearne, MEO
Carlos Solis, SPS

Date Prepared: July 31, 2003

Recommendation for Threshold Decision:

Pursuant to Section 216.2(a) of AID environmental procedures, environmental analysis/evaluation is required for new projects, programs or activities authorized by A.I.D. The attached information presents an analysis of activities planned under CAM’s Regional Strategic Objective Number 2 “Economic Freedom: Open, Diversified Expanding Economies”.

A categorical exclusion should be issued for activities involving training and technical assistance in accordance with 22 CFR 216.2(c)(2)(i). A Negative Determination with Conditions should be issued for activities under Sub-IRs 2.1.1 and 2.2.1.

Concurrence: _____

Date:

Paul Tuebner
USAID/Honduras Mission Director

Clearance:

RWaldron, ANRO _____

DBall, SPS _____

CYeager, A/REA (G-CAP) _____

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OVERVIEW AND PROJECT DESCRIPTION

USAID/Honduras proposes to work with public and private sector partners to implement a series of activities to contribute to the achievement of CAM’s Regional Strategic Objective Number 2 **“Economic Freedom: Open, Diversified Expanding Economies”** as illustrated by the Results Framework shown below:

Intermediate Result 2.1: Laws, Policies, and Regulations that Promote Trade and Investment

Activities under this IR will improve the capacity and framework of Honduras to negotiate and expand the benefits its people receive under free trade agreements, such as CAFTA. In the trade and investment policy arena, USAID/Honduras will focus efforts on those elements which would have a direct positive impact on overall economic growth. Support activities will help Honduras reduce barriers to intra-regional trade, and to trade outside the region. Activities under this IR will assist the Government of Honduras better conform their commercial and legal frameworks to international standards, and improve the legal and regulatory environment for small and medium businesses, so that they too may benefit from increased trade. Activities are particularly targeted to improve Honduras’ performance in the four key areas of Days to Start a Business, Budget Deficit, Trade Policy and Rule of Law (in coordination with SO1: More Transparent and Responsive Governance) – thereby strengthening Honduras’ position to qualify for the Millennium Challenge Account.

2.1.1 Improved Capacity to Negotiate and Implement Trade Agreements.

USAID/Honduras will provide support to the Government of Honduras, and the public and private sectors, to understand and disseminate information on the context and process of international trade negotiations. Activities will include analyzing the impact of free trade agreements on the Honduran economy and to build domestic support for international commitments that result from the Free Trade Areas of the Americas (FTAA.) USAID/Honduras will focus support on trade and competitiveness capacity building. Resources will be made available to implement the agreements for reforming and upgrading regulatory standards, adherence to CITES (international environmental trade regulation agreements), and practices, including customs, intellectual property rights, sanitary and phyto-sanitary (SPS) inspections, and dispute resolutions.

USAID/Honduras will work closely with the Regional Rural Diversification Project to coordinate assistance on customs procedures and in support of regional labs for SPS (in consultation with CIDA, who are investing \$5 million in a regional SPS multi-year Initiative). In addition, USAID/Honduras will work in coordination with USDA, APHIS and FDA on export rules, regulations and export certification for client firms.

2.1.2 Reduced Barriers to Trade, Investment and Market Integration.

Policies that will be addressed by USAID/Honduras will include simplified procedures for business startup, anti-monopoly measures, and various trade and financial policies. USAID/Honduras will provide resources for development and dissemination of improved trade statistics and analysis. In addition, USAID/Honduras will assist private firms to adjust to new free trade rules and regulations, a critical intervention during the implementation stage of CAFTA. As private firms become more familiar with what to expect in a free trade economy in the future, they will want additional technical assistance to engage more with the government to eliminate policy constraints that reduce their competitiveness in a global economy. USAID/Honduras, in coordination with the Regional Program, will help to identify these constraints and to develop and implement plans to eliminate them. Activities within this sub-intermediate result will lay the groundwork for the new World Bank and IDB competitiveness projects with FIDE.

2.1.3 Commercial Laws and Regulations more Consistent with Labor, International Property Rights, International Commitments (e.g., CITES), and Prevailing Practice.

USAID/Honduras will provide select demand-driven assistance in macro-economic and financial policy formulation, as requested by the Government of Honduras. USAID/Honduras will work with the US Treasury on progressive interventions to increase tax revenues or decrease public expenditures, or both. Substantial work in both areas will be undertaken. Furthermore, USAID/Honduras will work with the financial sector to develop innovative approaches to portfolio and debt restructuring services as well as reducing the transaction fees of remittances. USAID/Honduras has re-focused its micro-finance and banking support program, in close coordination with the World Bank and IDB, to include a core component to assist the National Banking and Insurance Commission (CNBS) to more effectively supervise regulated micro-finance institutions. Through a LAC regional support mechanism, USAID/Honduras will facilitate the establishment of clear and predictable commercial “rules of the game” to strengthen the country’s efforts to build an efficient market economy, foster competitive goods and services, attract productive investment and integrate into global commercial networks.

Intermediate Result 2.2: More Competitive, Market-Oriented Private Enterprises

Technical assistance will be made available to producers and small and medium-sized enterprises (SMSEs) to take advantage of an improved legal and regulatory framework by promoting fundamental changes in their ability to diversify and compete in local, regional and international markets – broadly framed as a “Competitiveness Enhancement Program” (CEP). Activities under CEP will increase

the access of SMSEs to market information and strengthen their capacity to use such information to produce in response to market demand, rather than seek buyers for what they already produce (targeted towards the agricultural and light manufacturing sectors). Activities will improve producer technical abilities and encourage diversification toward higher value-added/higher price markets to boost overall revenues and sales. The program will also facilitate access to technology and other business support services, including micro-financing and lending, market research, and advertising, for producers and SMSEs.

2.2.1 Increased Access to Market Information, and Business Management and Technical Skills Training

CEP activities will support sustainable economic diversification, especially in rural areas, by promoting structural changes in productivity and marketing in strategic industry and agricultural sectors. USAID/Honduras activities will focus on product sectors that offer the opportunity for substantial expansion of sustainable production through modern, cost-saving technology and market “clustering” channels. Accordingly, USAID/Honduras will target business development services to micro, small and medium-sized entrepreneurs in specialty coffee, non-traditional agriculture and agro-industry, sustainable wood products, and light manufacturing. Support will be provided to facilitate essential production and preparatory services with local, commodity specific producer associations committed to diversification and sustainability. Adaptive research will be supported to facilitate competitiveness factors via cost reducing and product enhancing technologies. Comprehensive information from model farms will be provided such that farm budget information can be shared. Production and post harvesting technologies that respond to environmental enhancement concerns will be provided. Extensive regional and international links with state-of-the-art centers, particularly in the post harvest and food safety areas, will also be developed.

2.2.2 More Competitive Clusters and Improved Business Linkages.

USAID/Honduras will focus on providing technical assistance in market information, technology transfer, and sanitary and phytosanitary standards to SMSEs and small farmers, and linking them to larger firms and markets. We anticipate that there will be substantial replication from our technology transfer and market development efforts, and that many producers will enter new product areas after direct USAID/Honduras assistance has occurred, as effectively demonstrated through past support for melon and shrimp production in the 1990’s.

USAID/Honduras will provide support to improve the efficiency of marketing and delivery of new products. We will also provide technical assistance to explore new strategic alliances with local, regional and international supermarket chains and markets.

2.2.3 Increased Access to Technology and Support Services.

USAID/Honduras will facilitate increased access to lower-cost, productive credit by strengthening the network of small and medium-sized enterprises to access credit institutions and the use of the Development Credit Authority funds for loan guarantees with emphasis on micro, small, and medium sized enterprises. USAID/Honduras, working together with select local commercial banks and micro-finance institutions, will bring in investments to stimulate diversification and growth of rural enterprises. In addition, USAID/Honduras will facilitate training and advisory services to micro-finance lenders to alleviate the most extreme cases of rural poverty; and support for the establishment of a Regional Food Security Early Warning and Vulnerability Network.

Discussion and Determinations

Categorical Exclusion/Negative Determination with Conditions. The SO design team has reviewed proposed activities and determined that most of the activities qualify for a categorical exclusion, per 22 CFR 216 Paragraph 216.2(c)(2)(i), “Education, technical assistance, or training programs except to the extent such programs include activities directly affecting the environment (such as construction of facilities, etc.)”.

Under Sub IR 2.1.1, economic or other incentives for expanding trade and market access may have direct or indirect negative impacts on the environment. For example, increased access to/by international markets may increase harvesting pressure on some natural resources to non-sustainable levels, thus threatening local biodiversity and tropical ecosystems. Credit expansion may lead to expansion of non-environmentally friendly economic activities, particularly with respect to potential agricultural conversion of forested areas. We are recommending a Negative Determination with the Condition that the MEO review and approve credit, trade and market recommendations prior to implementation to ensure thorough review of impacts.

We are also recommending a Negative Determination with Conditions for all activities under sub-IR 2.2.1 which include technical assistance in agricultural production and post harvesting technologies. These actions will be subject to strict compliance with integrated pest management (IPM) and pesticide use guidelines and procedures already approved by the Mission (LAC-IEE-02-01). Furthermore, all activities supporting or recommending the limited and safe application of pesticides will be based on the U.S. Environmental Protection Agency (USEPA) regulations and list of approved pesticides. The MEO and technical officers will monitor compliance by all activity partners, as part of the monitoring and evaluation of the Program.

Furthermore, the following language will be included in the Grant Agreement, and in all contracts and agreements under this activity:

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