



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID/Honduras

SECTION C - DESCRIPTION/SPECIFICATIONS/STATEMENT OF WORK

C.1 STATEMENT OF WORK

1. Background

1.1 CONTEXT FOR USAID ASSISTANCE:

The overarching goal of the regional strategy for Central America and Mexico for FY 2003-2008 is a more democratic and prosperous Central America and Mexico, sharing the benefits of trade-led growth broadly among their citizens. USAID's Country Plan will contribute to this goal by concentrating its resources on three main strategic objectives (SOs):

- SO1 – Ruling Justly: More Responsive, Transparent Governments;
- SO2 – Economic Freedom: Open, Diversified, Expanding Economies and;
- SO3 – Investing in People: Healthier, Better Educated People

SO2 includes three Intermediate Results (IRs): IR 2.1: Laws, Policies, and Regulations that Promote Trade and Investment; IR 2.2: More Competitive, Market-Oriented Private Enterprises and IR 2.4: Improved Management and Conservation of Critical Watersheds¹.

This solicitation is to obtain technical services to support USAID/Honduras in achieving results under SO2, IR 2.2: More Competitive, Market-Oriented, Private Enterprises.

1.1.1 POLITICAL AND ECONOMIC OVERVIEW:

Along with the rest of Central America, Honduras is suffering from a long-term economic crisis caused by cyclical low commodity prices, and periodic droughts and floods. Efforts to attract sizable new private investment in Honduran manufacturing and assembly as well as other private sector areas are currently undermined by the high transaction costs of security, telecommunications, electricity, bureaucratic obstacles, high interest rates and a weak judicial system. Moreover, the quality of investment is low mainly because of the low skill and productivity of the work force. This same low labor productivity impedes income growth among the poorest sectors of the population.

Honduras has lagged behind its Central American neighbors in effectively implementing reform measures needed to increase productive private investment and become competitive in regional and world markets. Most Honduran firms, particularly those in the agricultural sector, are not sufficiently prepared to compete in open international markets. Furthermore, trade policy analysis, business planning, negotiating capacity and implementation of policies in both the public and private sectors are extremely weak.

¹ Elements related to IR 2.3: Broader Access to Financial Markets and Services are incorporated under IR 2.1 for those activities that relate to improved policies for the micro financial sector and under IR 2.2 for those activities that relate to support to microfinance and banking institutions.

1.1.2 DEVELOPMENT CONSTRAINTS IN THE HONDURAN RURAL SECTOR:

Honduras has a population of 6.6 million out of which 53% live in poverty conditions. Forty-six percent of the total population lives in rural areas, where the poverty index is approximately 75%.² The country has slow economic growth, which is reflected in the decline in private investment and the increase in the unemployment rate. Poverty and low productivity are particularly severe in the agricultural sector, which represents 20% of the Gross Domestic Product and employs more than one third of the country's economically active population.

Most of the Honduran poor dwell in the rural areas, and the economy of the rural population is primarily based on agriculture. Most people who live in rural Honduras make a living through small scale-farming or the lumber industry. The Honduran economy has historically depended on the export of a limited number of traditional commodities. Bananas, coffee, sugarcane and livestock production make up the majority of the large-scale plantation estates. Planting of African palm in the Aguan Valley began in the 1960s, but the real force towards agricultural diversification began in the 1980s.

The vast majority of rural poor and small scale-farmers who tend their own plots are landless laborers who may also be seasonally employed by transnational companies or larger farmers of seasonal crops, such as coffee, watermelon, fisheries and melons. Many peasants who farm their own plots of land attempt to supplement their income with part-time, seasonal wage labor. Some work family land, rent additional land, and also work as day laborers. With the decline in the price of some crops such as coffee, small-scale subsistence farmers struggle to provide for their families.

Approximately 75 percent of the country has slopes steeper than 15 percent and the country experiences a highly seasonal rainfall pattern and a tendency towards extreme storm events. In addition, current land use, resource exploitation practices and related population impacts, pose major obstacles for sustainable economic growth. About 73 percent of land in Honduras is suitable for forestry production or perennial cultivation, with only 23 percent of Honduran soils designated as suitable for agriculture and livestock. In actuality, however, only 50 percent of the land is currently in forestry and the balance is under agricultural production and other uses. Inappropriate farming, grazing, forestry and other resource extraction practices, driven in part by poverty, ignorance, inadequate policy or enforcement safeguards or inadequate market incentives compound the negative impact on the natural resource base and have resulted in significant soil degradation and accelerated erosion rates, especially since Hurricane Mitch.

Arable land is in short supply, and in consequence a vast majority of the farmers are located on the slopes of marginal mountainous, very often unfertile land, which is very difficult and costly to farm. These lands are being deforested at an alarming rate, and due to the continued destruction of forests, there is a lack of intact vegetation, which would normally hold soil in place and prevent erosion. Without the access to intermediate technology practices such as mechanization and appropriate fertilization and irrigation, subsistence farmers rely on such hand tools as *machetes*³, hoes, axes, digging sticks and wooden plows. Furthermore, rural producers lack the knowledge and skills to efficiently produce, manage post harvesting, and market their products, mainly due to a lack of entrepreneurship skills and a long-standing culture of subsistence production with limited or no linkages to the market.

The agricultural sector faced a recession in 2002 primarily due to the international price decline of some important agricultural commodities for the Honduran economy, such as coffee. The small and medium rural producers are the ones that are being more severely affected, and the crisis is worsening their quality of life and reducing their disposable income for social investment (e.g. health, education and nutrition) and productive investment (e.g. expanding their businesses). As a result of the reduction in rural household incomes, producers' consumption for both agricultural and non-agricultural goods and services has the tendency to decline, with the subsequent negative impact on the performance of non-agricultural micro, small and medium rural firms located in surrounding towns and secondary cities.

² Poverty Reduction Strategy Paper (PRSP) issued by the Government of Honduras on August, 2001.

³ Machete is a broad heavy knife used for cutting or as a weapon in some part of Central and South America.

On the bright side, the Ministry of Agriculture and Livestock (SAG) recently reported that in 2003 the agricultural sales and exports of Honduran products increased by \$25 million compared to 2002, primarily as a result of increased local and regional sales of fluid milk, poultry, meat, melons and *tilapia*⁴ exports to the U.S. market. Exports and sales of non-traditional agricultural products have increased consistently during the last years. One of SAG's main goals is to promote commercial agriculture and the Minister has announced that SAG plans to incorporate 20,000 additional hectares under improved irrigation in 2004 and 2005 (10,000 per year). Further, SAG is currently leading the implementation of several programs to promote integrated rural development, including the National Program for Sustainable Rural Development (PRONADERS) and the National Agricultural Program (PRONAGRO). Some of these programs (e.g. PRONADERS) provide grants or loans to small producers for investments in productive infrastructure.

1.1.3 OTHER DONORS PROGRAMS

The disaster of Mitch represented an opportunity to mobilize the GOH, civil society and donors more broadly, and to foster more coordination towards sustainable economic growth. Post Mitch support between 1998 and 2001 totaled \$1.4 billion and covered all sectors and needs (GOH 2001). This unprecedented level of international multi and bi-lateral support addressed rehabilitation, reconstruction, and recovery needs and to a lesser degree, provided some more development focused needs. Just in the agricultural sector, the post Mitch assistance from 1998 to 2001 went to \$177 million (GOH 2001), but now has declined considerably (SAG 2002). In many cases donors have taken the lead in launching sector support and this has often-times focused around a variety of mixed objectives and sources.

IFAD and IDB⁵ are the major supporters of the government's principal integrated rural development program (PRONADERS). In this program, IFAD places high priority in trying to support and address rural poverty reduction objectives, as defined in the PRSP. IFAD has provided \$75 million to PRONADERS over the past five years. The IDB has provided \$27 million. Also, IDB has provided complementary support in plant and animal disease control for imports and exports and agricultural policy work. Under the IDB's MARENA⁶ program, complementary environmental support of \$7 million is also provided to PRONADERS. At the beginning, slow disbursements were observed, but this was corrected after 2002 and the possibility for additional IDB funds for PRONADERS is currently being considered.

IDB also has started a program to promote business competitiveness and strengthen foreign trade management. This program is focusing on strengthening the technical capacity of the Ministry of Industry and Commerce (SIC) to promote exports through a National Export Promotion Plan, and will support the following three components of the National Competitiveness Program which is being managed by the Foundation for Investment and Development of Exports (FIDE): (a) improving the business environment; (b) linking small and medium enterprises to business clusters; and (c) establishing a competitiveness fund to provide co-financing for cluster-based projects.

In addition, the IDB has a \$20 million watershed management project that will be initiated in 2004. This is in response to the GOH's limited capacities to manage national forests under the 1992 "Agricultural Sector Modernization and Development Law" and the realization that the majority of forest and related land destruction is caused by the rural poor who possess limited options.

The World Bank's portfolio in activities related to expanding economic growth includes: 1) the \$34 million Rural Land Management Project (PAAR) which helps the Honduras Forestry Development Corporation (COHDEFOR) plan and execute forest management activities that include land legalization an registration and bio-diversity conservation; 2) the \$19 million Economic and Financial Management Project to improve transparency and accountability in the management and control of public finances; 3) the Natural Disaster Vulnerability Reduction Project for \$10.8 million to identify capacity building activities to reduce vulnerability to natural disasters; 4) the \$ 5 million Honduras Sustainable Coastal Tourism Project to develop and manage more sustainable coastal tourism (World Bank 2002) and (5) the \$ 28 million loan that was recently approved to improve the country's investment climate and to work more closely with the National

⁴ Tilapia is a warm freshwater fish which is the second-most cultivated group of fish in the world. Tilapia is becoming very popular in restaurants all across the U.S. because of its nice white meat and ease of preparation. According to SAG, tilapia fillet exports to the U.S. reached \$ 15.5 million in 2003 (mainly red tilapia).

⁵ IFAD (International Fund for Agricultural Development and IDB (Inter-American Development Bank).

⁶ MARENA- Natural Resources Management Unit for Priority Watersheds (Unidad de Manejo de Recursos Naturales en Cuencas Prioritarias)

Competitiveness Council's clusters and, in that context, will focus on *maquila* and tourism. Based on similar coordination meetings with the GOH, the IDB will focus more on agro-industry and forestry products "cluster" activities.

Building on its previous major programs, the World bank is currently financing the PATH project implemented by the Minister of Governance and Justice; the PATH project is a continuation of the PAAR project.

The U.S. Department of Agriculture (USDA), through the Food for Progress donation to the Ministry of Agriculture, will assist small and medium sized farmers increase production and improve agricultural methodologies. These objectives will be carried-on through three programs: (1) National Agribusiness Development Centers Program, (2) Implementation of agricultural roundtable recommendations and (3) Sanitary and Phytosanitary Systems (SPS) Animal and Plant Health Program. USDA also has a program with Technoserve to assist small farmers in northern Honduras, and will be financing a program in southwestern Honduras to assist small farmers with CHF⁷ starting in the fourth quarter of 2004.

The Canadian International Development Agency (CIDA) programs in Agriculture and Natural Resources will focus on stabilizing the watersheds in Honduras. Canadian expertise in the natural resource sectors, both at the project level (e.g. watershed management) and on a policy level (e.g. land use regulation and long term strategies) will be provided. This will support policy development and program implementation at the local level. CIDA's ProMesas project is also assisting farmers in Olancho as well as forestry development projects in northern Honduras.

USAID is promoting integration and synergism with other donor's programs and is supporting initiatives that build on other donors' programs to promote economic diversification and development in targeted rural areas. USAID is also working in coordination with other USG agencies and other donors' initiatives to promote economic growth in the poorest regions of the country (e.g. Lempira Sur Project, PROLANCHO, PROEMPRESAH and COMERSA).

As a result of the roundtable discussions with donors and civil society organizations, SAG is currently working on a sector law to promote rural sustainable development that will be shortly presented to Congress and the President for approval. This law will require that all development initiatives will address common development problems in a more coordinated fashion. While it is anticipated that each donor will continue to utilize their own implementing mechanisms and procedures, this new approach will require that individual efforts will contribute to the achievement of sub sectoral country goals and targets.

1.1.4 USAID/HONDURAS INITIATIVES TO PROMOTE ECONOMIC GROWTH:

Ongoing Mission initiatives, building on lessons learned from Hurricane Mitch Reconstruction activities to reactivate the Honduran rural economy, are targeted towards establishing a solid foundation for the successful start-up of activities for the new strategic period. During the last year, USAID quickly mobilized critical trade capacity building (TCB) support enabling the GOH to effectively participate in the Central American Free Trade Agreement (CAFTA) negotiations while increasing awareness and support for CAFTA among business groups and civil society. Over 6,000 small farmers and micro entrepreneurs participating in USAID activities have increased incomes, in some cases up to 400%. Major gains were achieved in increasing and improving the quality of milk production and in expanding participating farmers' exports of high-value crops, such as cucumber, jalapeño peppers, sweet potato, squash, watermelon and honeydew melons. USAID-supported agricultural and rural diversification efforts led to an increase in sales and exports of more than \$ 23 million, created more than 2,200 new jobs (an average 50% job gain on participating farms) and maintained more than 800 jobs of small artisans. USAID support contributed to a 10% rise in nontraditional exports and a greater percent of micro and small enterprises with access to financial and business development services.

Accelerated expansion of these activities will help some of Honduras' most vulnerable groups to overcome the barriers that currently impede access to market and technology information and to take better advantage of increased trade opportunities resulting from CAFTA, the WTO's Doha Development Agenda, and the Free Trade Area of the Americas (FTAA). As a result of the implementation of the new strategy, the Mission expects to see increased trade, greater diversification of private investment in targeted rural areas and increased employment, all of which will contribute to poverty reduction.

⁷ Cooperative Housing Foundation (CHF)

1.1.5 ECONOMIC GROWTH STRATEGIC OBJECTIVE:

In response to the regional challenges, opportunities, commitments and priorities, the Government of Honduras (GOH) and USAID have jointly agreed to place maximum emphasis on an economic growth program to improve competitive market-led growth in targeted areas to prepare Honduras to fully reap the benefits of free trade. To achieve this goal, USAID/Honduras has designed Strategic Objective 2 (SO2) “Economic Freedom: Open, Diversified, Expanding Economies”. SO2 has three Intermediate Results (IRs): IR 2.1 “Laws, Policies and Regulations that Promote Trade and Investment; IR 2.2 “More Competitive, Market-Oriented, Private Enterprises” and IR 2.4 “Improved Management and Conservation of Critical Watersheds”. The purpose of this solicitation is to obtain technical services to help the Mission and its partners meet performance indicators to achieve IR 2.2. IR 2.2 will seek to continue increasing agricultural and product diversification, productivity and quality, and create linkages between producers in rural areas and relatively higher value processing and marketing enterprises in urban centers. The aim of this program is to assist rural enterprises become sufficiently competitive to gain the benefits of freer and more open trade.

1.1.6 INTERMEDIATE RESULT 2.2 - FRAMEWORK:

To help alleviate the economic conditions in the rural sector, it is imperative to improve the productivity and competitiveness of micro, small and medium rural enterprises (MSMEs) through activities that have a direct impact on increasing and diversifying the sources of rural income⁸. In response, USAID has designed IR 2.2 to provide technical support to improve the competitiveness of MSMEs with the ultimate objective of creating economic opportunities and increasing the incomes of the rural poor.

This Program is designed to link micro, small and medium rural producers to local and international markets and assist MSMEs to add value to rural goods. Assistance activities shall be targeted towards linking and improving the incomes of all the participants in the production chain which is likely to require a combination of self-employed, small producers and processors, medium and large firms with employment generating potential, input and raw material suppliers and distributors and exporters that can absorb and add value to the production of small rural producers.

Activities under this Program shall include, but are not restricted to, the agricultural sector⁹. The Program shall also provide assistance to improve the competitiveness of non-agricultural rural products and services, with potential to diversify the sources and substantially increase-rural incomes. Specific target sub-sectors, sectors and clusters and geographic areas of intervention will be determined along with USAID and other stakeholders such as the Government of Honduras, private sector entities and other donors. Unless otherwise specified in the Requirements and Standards Section, specific crops, products and services shall be determined based on market potential, competitiveness of key sectors and sub-sectors, and Honduran producers’ comparative advantages for producing and selling those products.

USAID/Honduras and other donors have found that when the public and private sectors, as well as non-government sector partners, work together, greater results can be achieved. Alliances are expected to continue playing a major role in the implementation of this program.

1.1.7 SUB-INTERMEDIATE RESULTS:

Intermediate Result 2.2 has the following three Sub-Intermediate Results (IRs):

⁸ The criteria applied by USAID to differentiate micro, small and medium enterprises is the number of employees as follows: A “micro-sized enterprise” has between 1 and 10 full time employees; a “small-sized enterprise” has between 11 and 25 full time employees; a medium-sized enterprise” has between 26 and 50 full time employees and a large enterprise has more than 50 employees.

⁹ Agriculture is traditionally defined as “*the science of cultivating the soil, producing crops and raising livestock*”. However, in this Scope of Work, the term non-traditional agriculture has been expanded to include: agriculture (e.g. horticulture, floriculture, cattle-raising), aquaculture and forestry products. Non-agricultural products and services may include- but are not restricted to – tourism, eco-tourism, handicrafts, transportation services and light manufacturing.

Sub IR1 – Increasing access to market information, business management and technical skills training : The purpose of this Sub IR is: (1) to contribute to improve the business skills and the access to market information of rural growers, processors and manufacturers; (2) to promote the ability and business skills of rural producers to recognize changing circumstances and competitively respond to market opportunities and challenges and (3) to support the development of efficient and affordable business development services (BDS).

Sub IR2 – Increasing the competitiveness of business clusters and improving business linkages (including use of cleaner production technologies): This Sub-IR will contribute to: (1) facilitate business relationships between rural producers and processors with buyers; (2) establish buyer/seller networks and partnerships; (3) foster market and business linkages to form key strategic clusters and (4) identify key constraints to improve the competitiveness of MSMEs.

Sub IR 3 – Increasing access to technology and support services: Sub IR3 aims to: (1) promote the adoption of modern, environmentally friendly, cost-saving production technologies; (2) increase MSME access to affordable and efficient financial services, including micro-financing and lending and (3) assist MSMEs to comply with quality, legal and environmental requirements and regulations to access local and international markets.

1.1.8 INDICATORS:

Work under this Contract will support the Central America and Mexico (CAM) regional strategy in general, and more specifically the Honduras Country Plan.

Strategic Level and Intermediate Level indicators are provided below:

CAM - STRATEGIC OBJECTIVE (SO) LEVEL INDICATORS

- (1) Trade as a percentage of GDP
- (2) Changes in the composition and contribution of various sectors to the Honduran economy (e.g. manufacturing, tourism, services, green products)
- (3) Employment/economic opportunities created

CAM INTERMEDIATE RESULT 2.2 LEVEL INDICATORS

- (1) Competitiveness (according to the World Economic Forum Competitiveness Ranking Index)
- (2) Sales (volume and value) of rural goods and services

2. Special Considerations

2.1 ROLES AND RESPONSIBILITIES

2.1.1 ROLE OF THE GOVERNMENT OF HONDURAS

The Contractor shall work in close coordination with Government of Honduras (GOH) institutions - such as the Ministry of Agriculture and Livestock (SAG), the Ministry of Industry and Commerce (SIC), the Ministry of Tourism (MOT), the Ministry of Labor (MOL), National Institute of Statistics (INE) and others as appropriate to coordinate implementation of activities under this contract.

The Ministry of Agriculture and Livestock (SAG) is expected to be one of the primary counterparts for the implementation of this program. SAG coordinates the implementation of policy for agricultural and rural development with a strong focus on land ownership, rural financing and other aspects related to institutional policy. SAG has an active role proposing and defining agricultural positions for international free trade agreement negotiations, in coordination with

SIC. SAG has placed strong emphasis on supporting commercial agriculture through the application of sound technologies and is supporting the implementation of recommendations from the agricultural roundtables for the 20 major food products to improve their competitiveness. SAG's role for the implementation of this program will be to provide timely information to the Contractor about the rural and agricultural development programs promoted by SAG and to identify in close coordination with the Contractor potential areas of collaboration and synergy.

2.1.2 ROLE OF USAID:

The responsible USAID office for the technical direction and monitoring of this Contract will be the Trade, Environment and Agriculture (TEA) Office. The Cognizant Technical Officer (CTO) for this task order will be the 2.2 More Competitive Market Oriented Private Enterprises Team Leader.

The CTO will provide overall technical direction on policy issues relating to the achievement of results. Specifically the CTO will be responsible for the following:

- Oversee compliance with contract terms and conditions
- Ensure timely and coordinated provision of USAID financing and contract administration requirements
- Ensure donor coordination
- Conduct policy dialogue with GOH institutions and private sector counterparts
- Support counterpart Ministries' efforts to implement activities to assist this program in the most efficient manner and to identify and help resolve issues satisfactorily
- Review action plans, and coordinate approval of work plans
- Ensure performance monitoring
- Track Contractors' achievements under intermediate and sub-intermediate results
- Perform analysis and evaluations
- Review quarterly and annual progress reports

3. Applicable Documents and Initiatives

To undertake this work the Contractor shall review the design documents, assessments applicable documents and initiatives outlined below. These documents can be found at the following USAID webpage: <http://usaidhonoaa.newcom.hn> click on "Request for Proposals" link in RFP 522-04-015.

- a) Poverty Reduction Strategy
- b) Honduras Country Plan Distribution Copy
- c) Gender Action Plan (2002)
- d) CAM Regional Strategy
- e) Amplified Description, Annex I to SO2 Strategic Objective Agreement (July 2003)
- f) Generating Sustainable Growth - Consultant Report (2003)
- g) Final Reports of USAID activities under the Productivity and Policy Enhancement (PROPEP) Program such as:
PEP Project Final Report
- h) Bulletins, monthly reports and other technical information found on the web pages of USAID/Honduras economic growth activities such as the Agribusiness Development Center (www.hondurasag.org) and the Dairy Enterprise Initiative for Honduras and Central America (www.usdairylink.com)
- i) Global Development Alliance (GDA) webpage (www.usaid.gov/gda)
- j) ADS 204: Environmental Procedures (www.usaid.gov/policy/ads/200/204)
- k) Program Principles for Trade and Investment Activities and the Impact on U.S. Jobs and Workers' Rights (<http://www.usaid.gov/policy/ads/200/225.pdf>)
- l) ADS 307 Commodity Import Programs (<http://www.usaid.gov/policy/ads/300/307.pdf>)
- m) ADS 312 Eligibility of Commodities (<http://www.usaid.gov/policy/ads/300/312.pdf>)

n) PD-15 Assistance to Support Agricultural Export Development

(<http://www.usaid.gov/policy/ads/200/pd15.pdf>)

o) PD-71 Policy Determination: USAID Financing of Palm Oil, Citrus and Sugar Projects and Related Products

(<http://inside.usaid.gov/G/EG/afs/policies/pd-71.htm>)

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

5. Scope: The purpose of this Contract is to contribute to increase rural incomes by promoting the competitiveness of micro, small and medium rural enterprises; expanding local sales and export market opportunities; and promoting value added production and private investment in rural areas. As a result of this activity, USAID expects to see increased incomes, increased trade and investment, expanded economic diversification, diversified private investment, increased employment and increased productivity of rural firms.

6. Statement of Work

This section sets forth the expected results, performance requirements and standards for this Contract.

PERFORMANCE REQUIREMENTS AND STANDARDS

Result 1 – Exports and local sales of rural goods and services increased¹⁰

Requirement 1.1 – Micro, small and medium rural enterprises (MSMEs) equipped with the skills and know-how to increase sales and exports of non-traditional agricultural products (fresh and processed) by \$ 35 million.¹¹

Standards – At a Minimum:

Standard 1.1.1 – Baseline for exports and sales for each participating MSME established and monitored annually (local currency and dollar value equivalent).

Standard 1.1.2 – Sales and exports of processed non-traditional agricultural products among program-assisted MSMEs increased by \$ 15 million.

Standard 1.1.3 – Sales and exports of fresh non-traditional agricultural products among program-assisted micro, small and medium (MSM) growers increased by \$ 20 million.

Requirement 1.2 – MSMEs equipped with the skills and know-how to increase sales and exports of non-agricultural products and services by \$ 25 million.

Standards – At a Minimum:

Standard 1.2.1 – Baseline for exports and sales for each participating MSME established and monitored annually (local currency and dollar value equivalent).

Standard 1.2.2 – Sales and exports of non-agricultural products and services among program-assisted MSMEs increased by \$ 25 million.

¹⁰ Products under this category will be selected by the Contractor based on market and production potential. However, the Contractor is strongly encouraged to build on successful high-potential products assisted by USAID during the previous four years such as non-traditional horticultural and dairy products. For reporting purposes, figures for fresh and processed agricultural products should be presented as separate items.

¹¹ Agriculture is traditionally defined as “*the science of cultivating the soil, producing crops and raising livestock*”. In this Statement of Work, the term -traditional agriculture has been expanded to include: agriculture (e.g. horticulture, floriculture and cattle-raising), aquaculture and forestry products.

Result 2 –Rural Household Incomes Increased

Requirement 2.1 – Program assisted MSMEs equipped with the skills and know-how to increase their annual average income by at least 40%.

Standards – At a Minimum:

Standard 2.1.1 – Baseline for local currency and dollar value equivalent of annual income for participating MSMEs established and monitored annually.

Standard 2.1.2 – Average income of 2,500 MSMEs increased by 40%.

Result 3- Rural Employment Increased

Requirement 3.1 – Creation of new jobs promoted among program-assisted MSMEs.

Standards – At a Minimum:

Standard 3.1.1 – Employment baseline established for each participating MSME and monitored annually.

Standard 3.1.2 – Five thousand full-time equivalent new job positions created among program-assisted MSMEs.

Result 4- Program-assisted MSME investments and contributions for the implementation of this program match USAID’s investments

Requirement 4.1 – Implement mechanisms and cost-sharing schemes to ensure that the investments and contributions from program-assisted MSMEs match USAID’s investments for the implementation of this program.

Standards – At a Minimum:

Standard 4.1.1 – Program assisted MSME’s cash contributions and/or capital investments in their businesses reach a one-to-one ratio of USAID investment

Standard 4.1.2 – MSMEs cash contributions reach 15% of the total training and technical assistance costs.

Result 5- Access to market information, business management and technical skills training for MSMEs increased

Requirement 5.1 – Market information on agricultural and non-agricultural products and services that can be competitively produced by Honduran rural producers is made accessible to MSMEs.

Standard – At a Minimum:

Standard 5.1.1 –Thirty high-potential, value-added products that can be competitively produced by micro, small and medium (MSM) Honduran rural producers identified.

Standard 5.1.2 – Five thousand potential MSM producers accessing market information on the products identified in standard 1.1.1.¹²

Standard 5.1.3 – Strategic plan developed to ensure that MSMEs have sustained access and utilization of market information beyond program interventions.

Standard 5.1.4 – Potential party(ies) equipped with the capacity to continue sustained MSME access and utilization of market information.

Requirement 5.2 – Business skills of firms to competitively respond to new opportunities and challenges improved.

¹² MSMEs assisted in Standards 5.1.2, 5.2.1, 5.2.2, 5.3.1, 5.3.2, 6.1.1, 6.1.2, 6.2.3, 7.1.1, 7.1.2, 7.1.4, 7.2.1, 7.2.4, 7.2.5 and 8.1.2 may be the same depending on the assistance needs of each MSME. There may also be an overlap between the MSMEs assisted in Standards 5.2.1, 5.2.2, 5.3.1, 5.3.2, 6.1.1, 6.1.2 and 6.2.3 and the dairy MSMEs assisted in Standards 6.1.4, 7.1.3, 7.2.2 and 7.2.3.

Standards – At a Minimum:

Standard 5.2.1 – Five thousand MSMEs equipped with the skills and know-how to diversify to higher-value products/crops/services or add more value to their products/crops/services.

Standard 5.2.2 – MSMEs equipped with the skills and know-how to develop twenty-five of the value-added products identified in Standard 5.1.1.

Requirement 5.3 – Operational performance of rural off-farm MSMEs improved.

Standards – At a Minimum:

Standard 5.3.1 – Two hundred and fifty rural off-farm MSMEs equipped with the skills and know-how to address problem areas and constraints in key management functions such as finance and accounting, operations (supply chain management and distribution), marketing and human resources management improved.

Standard 5.3.2 – Two hundred and fifty off-farm MSMEs achieve operational efficiencies as measured by at least one of the three following indicators: increased productivity (e.g. more units of output for the same level of inputs), reduced costs (e.g. production or distribution costs) or increased profits.

Result 6 – Competitive clusters and improved business linkages for rural MSMEs established.

Requirement 6.1 – Business deals to link MSM rural producers to local, regional and export markets established.

Standards – At a Minimum:

Standard 6.1.1 – Five-hundred (500) new producer/buyer business deals for exports of high potential agricultural and non-agricultural products established.

Standard 6.1.2 – Five-hundred (500) new producer/buyer business deals for local sales of high potential agricultural and non-agricultural products established.

Standard 6.1.3 – Network of diversified buyers established for the different crops and products supported through the Contract.

Standard 6.1.4 – Two Milk Cooling Center (MCC) Cooperatives equipped with the skills and know-how to obtain market information and access to credit to establish a processing plant for dairy products.¹³

Standard 6.1.5 – Twenty-five (25) high-potential producers and/or processors participating in international trade shows and fairs.

Requirement 6.2 – Business and technical services to enhance the competitiveness of MSM rural enterprises for the clusters supported through the Contract improved.

Standard – At a Minimum:

Standard 6.2.1 – Unmet business services to enhance the performance of rural MSMEs in five key clusters or sub-sectors identified and prioritized.

Standard 6.2.2 – Utilization of services identified in Standard 6.2.1 increased by 10%, as measured by the number of MSMEs using the services and the number of times of usage.

Standard 6.2.3 – Five-hundred (500) firms benefit from lower costs in business services, such as market research, insurance, advertising, marketing, labeling, trade finance, input purchasing and freight forwarding.

Result 7 - Access to technology made available to rural MSMEs

Requirement 7.1 – Rural MSME's adopting new production technologies and environmentally friendly production practices.¹⁴

¹³ These cooperatives are currently being established with the assistance of the USAID-funded Dairy Enterprise Initiative (DEI) program implemented by Land O'Lakes.

Standards – At a Minimum:

Standard 7.1.1 – Four thousand (4,000) MSMEs equipped with the skills and know-how to apply improved production technologies and environmentally sound production practices.

Standard 7.1.2 – Two-hundred (200) MSM producers and exporters equipped with the skills and know-how to obtain export and quality certifications such as EUREPGAP, ISO certifications, certifications for organic production and certified timber.

Standard 7.1.3 – Five-hundred (500) dairy producers equipped with the skills and know-how to improve the quality of their milk¹⁵.

Standard 7.1.4 – Five-hundred (500) vanilla producers equipped with the skills and know how to successfully produce and sell their products in local and international markets¹⁶.

Standard 7.1.5 – All environmental assessments required to comply with 22CFR 216 depending on the product/crop mix shall be completed, including the preparation of Pesticide Evaluation Reports and Safe Use Action Plans for each pesticide intended for use.

Requirement 7.2 – Rural MSMEs manufacturing and processing systems improved.

Standards – At a Minimum:

Standard 7.2.1 – Thirty program-assisted firms equipped with the skills and know-how to implement food safety systems such as the Hazardous Analysis of Critical Control Points (HACCP)¹⁷.

Standard 7.2.2 – Marketability of dairy products of twenty dairy processors improved, as measured by a 20% increase in their annual sales.

Standard 7.2.3 – Five of the dairy processors assisted in item 7.2.2 equipped with the skills and know-how to obtain certifications by SENASA and FDA to export to the US, and ten certified to export to the region.

Standard 7.2.4 – Twenty-five micro, small and medium processors (non-dairy) equipped with the skills and know-how to obtain FDA certifications to export to the U.S. (or other certifications as appropriate depending on the export market).

Standard 7.2.5 – Ten high-potential (non-agricultural) industrial small and medium firms equipped with the skills and know-how to adopt good manufacturing practices (GMP).

Standard 7.2.6 – All environmental assessments required to comply with 22CFR 216 depending on the product/crop mix shall be completed.

Result 8 – Financial services made accessible to rural MSMEs

Requirement 8.1 – Microfinancial institutions (MFIs) and banks provided with the skills and know-how to efficiently provide financial services to rural micro, small and medium enterprises.

Standard- At a Minimum:

Standard 8.1.1 – MFIs equipped with the tools to develop and implement ten financial products for rural MSMEs.

Standard 8.1.2 – Five-hundred program-assisted rural MSMEs equipped with the tools and know-how to access credit for production and processing technologies.

Standard 8.1.3 – Ten MFIs have the capacity to develop and implement a plan to reduce their arrears rates to less than six percent.

¹⁴ MSMEs assisted in Standards 5.1.2, 5.2.1, 5.2.2, 5.3.1, 5.3.2, 6.1.1, 6.1.2, 6.2.3, 7.1.1, 7.1.2, 7.1.4, 7.2.1, 7.2.4, 7.2.5 and 8.1.2 may be the same depending on the assistance needs of each MSME.

¹⁵ These producers are in addition to those required in item 7.1.1, unless there is an overlap in the case of a beneficiary that has dairy and other type of production (e.g. fruits or vegetables).

¹⁶ These producers are scheduled to plant vanilla in 2004 and 2005 with the assistance of the USAID-funded Agribusiness Development Center program implemented by Fintrac (some of these producers may also plant black pepper). The Contractor for this SOW shall assist these producers in field production during 2006 and 2007 and harvest, marketing, sales and distribution in 2007-2009. (These producers are included in the 4,000 MSMEs in Standard 7.1.1).

¹⁷ MSMEs assisted for Standard 7.2.1 may be the same firms assisted in 7.2.2, 7.2.3 and 7.2.4

Standard 8.1.4 – Ten MFIs have the capacity to develop and implement a plan to increase savings captured by the institution by at least ten percent per year.

Standard 8.1.5 – Ten MFIs have the capacity to develop and implement a plan to decrease their real lending interest rate by at least 1 per cent per year.

Result 9 - Sustainability strategy developed to enable continuity beyond the end of the Contract

Requirement 9.1 - Sustainability Strategy Document (SSD) developed

Standards - At a Minimum:

Standard 9.1.1 – The SSD should provide recommendations and an action plan to enable continuity of the provision of technical assistance and services for the main crops, products and services promoted by the program. During the Contract period, TA and other services will be provided by the Contractor; the SSD should recommend an action plan to enable continuity of the provision of these services by local institutions beyond the Contract period.

Standard 9.1.2 – The SSD should be presented to USAID at the end of the second fiscal year of implementation and should not be longer than 30 pages.

Requirement 9.2 – Capacity of local institutions improved to provide the services delivered by the Contractor during the implementation of this Contract

Standards - At a Minimum:

Standard 9.2.1 – Local institutions provided with the skills and know-how to provide three of the main services delivered by the Contractor.

Standard 9.2.2 – Information on successful program experiences shared with NGOs, PVOs, the GOH and other programs and initiatives - throughout the implementation period of the Contract - to promote replication.

Result 10 – Alliances established with the private sector to leverage USAID’s resources

Requirement 10.1 – At least US\$ 3 million of non-USG funding leveraged with the private sector in support of Contract results and requirements¹⁸ (refer to Section L.8 for plug amount)

Standards – At a Minimum:

Standard 10.1.1 – Four alliances with the private sector (local, international or transnational companies) and non-governmental organizations established.¹⁹

Standard 10.1.2- Contributions for the implementation of these alliances reach at least a one-to-one ratio either in-cash or in-kind. Resources should come from non-USG sources.

¹⁸ USAID Definition of Alliances- An alliance is a relationship established between two or more members that incorporates a breadth of resources to arrive at solutions only available through pooled efforts. Alliances are expected to bring significant new resources, new ideas, new technologies and/or new partners or using existing partners in new ways, to address development problems. The resources united may be as diverse as the alliances themselves, including technology, market creation, best practices, in-country networks, and expertise in development programs, ranging from international trade to environmental protection. In USAID’s experience, the combination of complementary assets has encouraged innovative approaches, more effective problem solving, deeper impact and a better understanding of the development challenges. For more details on alliance models and precepts, please refer to USAID’s Global Development Alliance (GDA) webpage:

http://www.usaid.gov/our_work/global_partnerships/gda/.

¹⁹ May include leveraging Corporate Social Responsibility (CSR) resources of medium or large, local or international firm that are not directly related to the program.

Result 11 - Crisis Modifier/Rapid Response Mechanism

Requirement 11.1: Contractor has the capacity to respond to unanticipated events in the agricultural, rural diversification, competitiveness sector, upon written request from the USAID CTO (refer to Section L.8 for plug amount)

Standards: At a minimum:

Standard 11.1.1 - The Contractor has the capacity to provide technical assistance on short notice (within 21 days) in response to unanticipated events and urgent requests that may arise. The capacity may be required in any of the result areas mentioned in this Contract and may include technical services to assist producers that have been affected by an unpredictable economic crises or natural disaster, feasibility studies, market surveys, business plans and strategies to support specific sectors.