

# Honduras Compact: Raising Incomes, Realizing Dreams

Honduras was one of the first countries to be selected for a compact with MCC in 2004, based on its strong performance on MCC's selection indicators. With its own development strategy, the Honduran Poverty Reduction Strategy (PRS), as a starting point, the Government of Honduras (GoH) consulted with civil society and the donor community to determine which of its national priorities should be incorporated into an MCC proposal. Low agricultural productivity and high transportation costs were identified as key constraints to economic growth, limiting Honduras' ability to take advantage of its strategic location. Based on rigorous analyses of which investments would yield the greatest returns in terms of increased incomes for target populations, the GoH and MCC agreed on a package of investments in rural development and transportation.

The compact between the GOH and MCC aimed to raise incomes in two key ways: (1) by helping small-scale farmers become small-scale entrepreneurs through training to improve their productivity, access to new markets, and access to credit; and (2) by reducing transportation costs through improvements in road networks to improve market access and foster greater market integration. MCC will be conducting independent impact evaluations to measure the gains in income attributable to these investments. Yet, even before income gains are fully captured, MCC and its partners in Honduras have important achievements to report:

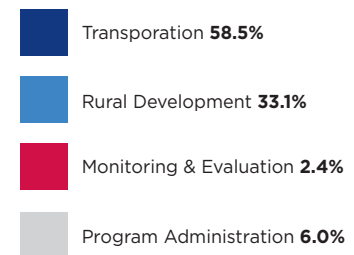
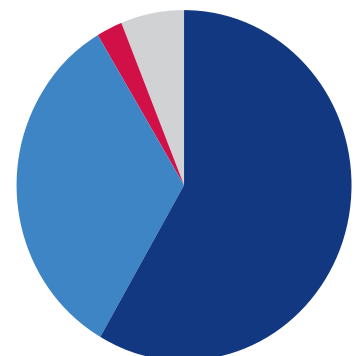
- ★ More than 7,000 farmers were trained, with 6,029 of those increasing their production of high-value horticultural crops to earn \$2,000 per hectare or more, demonstrating they have substantially adopted the new techniques.
- ★ More than 10,000 loans have been disbursed to more than 5,800 recipients. These loans make it possible for farmers to purchase equipment, seeds, and tools that help them expand their production and increase their farm profits.

## Honduras Compact at a Glance

Signed . . . . . **June 13, 2005**

Entry into Force . . . **Sept. 29, 2005**

Compact Total . . . . **\$205,000,000**



To learn more about results of MCC's investments in Honduras, visit [www.mcc.gov/](http://www.mcc.gov/)

- ★ 563 kilometers of roads have been completed
  - approximately 50 kilometers of the CA-5 highway, 45 kilometers of secondary roads, and 422 kilometers of the rural roads. Another 57 kilometers of the CA-5 highway, designed and prepared for construction with support from MCC, will be completed after the compact with additional financing from the Central American Bank for Economic Integration (CABEI).

### MCC'S CORE PRINCIPLES

MCC's mandate is poverty reduction through economic growth by partnering with countries committed to good governance, economic freedom, and investments in their citizens. MCC is a prime example of smart U.S. Government assistance in action, benefiting both developing countries and U.S. taxpayers through competitive selection, country-led solutions and implementation, and rigorous accountability for results.

## MCC Principles into Practice: Country Ownership at Work

MCC's approach to country ownership means that country partners are in the lead in prioritizing investments, designing and implementing programs, and being accountable for results.

**Consistent implementation of the Honduras program continued despite three national government transitions, including a major political crisis, because country ownership in Honduras went far beyond the government.**

The MCC compact was seen as a national priority and had broad support. Representatives of Honduran civil society and the private sector were part of ongoing consultations and served on the board of directors of MCA-Honduras, the Honduras entity that oversaw implementation of the compact, and, together with government officials, were accountable for program success. The national congress passed laws pertaining to the financial sector, road maintenance, and resettlement policy to increase the impacts and sustainability of MCC investments. Small-town leaders from different parties were involved in program implementation in their communities. Together, Hondurans owned and anchored the program through political transitions.

**Because of its commitment to investment outcomes for the roads project, the GoH revised its approach to resettlement.** A new GoH decree went beyond what current Honduran law required and met the international standards that are at the center of MCC's resettlement requirements. Thanks to this, resettlement activities took place effectively, and affected parties received timely and fair market-value compensation. Compared to other projects facing the similar resettlement needs, MCA-Honduras was able to move faster to compensate affected parties, clear the right of way, and complete construction within tight project timelines. Given the speed, quality, and success of the MCA-led resettlement, SOPTRAVI, the GoH roads ministry, is now considering ways to adopt MCA-Honduras' approach in future roads projects.

## Rural Development Project

This project includes \$67.8 million in strategic investments across four activities that train farmers in high-value horticulture production and commercialization, provide access to credit to farmers and agribusinesses, support research and initiatives that enhance and accelerate the development of market-based commercial agriculture, particularly in the horticultural sector, and rehabilitate rural roads to provide farmers with improved access to markets. These activities aimed to increase private investment and the adoption of more sophisticated agriculture techniques and marketing practices, and were designed to help thousands of small farmers all over the country diversify their crops, increase their yields, and expand their access to new customers nationally, regionally, and internationally. There is already evidence that most of the participating farmers have dramatically increased the volume and value of production using the new technologies and practices.

| <b>Agricultural Public Goods Grant Facility:</b>  | <b>Access to Credit</b>  | <b>Farmer Training and Development</b>  | <b>Rehabilitation</b>   |
|---|--|---|---|
| Promote agricultural innovation through the adaptation of global technological advances to local Honduran conditions and invest in improving the agricultural productivity of groups of farmers by connecting them to irrigation.   | Strengthen credit risk analysis and diversification of financial products for small farmers in the horticultural sector, increase the availability of credit for rural financial institutions for lending and improve the environment for asset-based lending to farmers.  | Improve the business skills, productivity, market access, and risk management practices of producers cultivating horticultural crops on small and medium farms.   | Construct and improve feeder roads that connect farms to markets.                               |
| <ul style="list-style-type: none"> <li>★ 10 new agricultural technologies developed for production of potato seeds and coffee hybrids, and for natural pest control to protect crops</li> <li>★ 290 hectares under irrigation infrastructure, with 618 farmers connected through the construction of 65 community irrigation systems</li> </ul> | <ul style="list-style-type: none"> <li>★ 6 new financial products developed</li> <li>★ 5,817 loan recipients (1551 of these loan recipients are women)</li> <li>★ 10,058 loans disbursed</li> <li>★ \$9 million (USD) in credit disbursed through the credit trust fund established for this activity</li> </ul> | <ul style="list-style-type: none"> <li>★ 7,460 farmers trained (600 of these farmers are women)</li> <li>★ 8,213 hectares under production</li> <li>★ 6,029 farmers harvesting high-value crops, earning at least \$2,000 a hectare</li> <li>★ 4,471 new hectares are under drip irrigation</li> <li>★ 4,433 farmers using drip irrigation</li> </ul> | <ul style="list-style-type: none"> <li>★ 422 kilometers of rural roads rehabilitated</li> </ul> |

### More results to come

MCC applies a rigorous framework to monitor projects and measure the cost-effectiveness of investments made. This includes conducting rigorous, independent impact evaluations on over half of our investments – more than any other donor. To learn more about MCC's impact evaluations, please visit [www.mcc.gov/impacteval](http://www.mcc.gov/impacteval).

MCC is conducting three impact evaluations on activities in the Rural Development Project in Honduras. Results from these evaluations, which will be available in November 2010, will estimate returns on investment for the various Agricultural Public Goods Grants. Results from the evaluation on how the Access to Credit activity influenced borrower behavior and increased the use of credit products will be available in April 2011. Results from the evaluation to assess the increase in income for participants in the Farmer Training and Development activity will be available in June 2011. The impact of the Rural Roads will be assessed as part of the evaluation on the Transportation Project.

## Transportation Project

This project rehabilitated nearly 200 kilometers of roads that will bring more than 1 million people closer to markets, social services, and economic opportunities. These roads will lower transportation costs by reducing transportation times and vehicle repair costs, freeing up resources to be productively invested elsewhere in Honduras.

| CA-5  | Secondary Roads  |
|---|--|
| Improve approximately 107 kilometers of the CA-5 highway to foster market integration and accessibility   | Pave and upgrade three key secondary routes (approximately 68 kilometers) for improved access by rural communities to markets. |
| <ul style="list-style-type: none"> <li>★ 49.5 kilometers completed</li> <li>★ MCC design and preparation of 57 km to be funded by CABI</li> </ul> | <ul style="list-style-type: none"> <li>★ 45 kilometers completed</li> </ul>  |



*Before*



*After*

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The impact evaluation to assess how the rehabilitation of the CA-5 highway, secondary roads, and rural roads have increased the incomes of people living near them, improved access to markets and social services, and fostered business development will be available in 2011.

## Insight into Implementation

MCC is a learning institution. Outcomes of our projects – both good and bad – will be rigorously and transparently evaluated to improve effectiveness, enhance development practice, and keep the U.S. Government at the forefront of development efforts. MCC and partner countries work together to identify and address implementation challenges, both to keep current investments on track and to inform the design and implementation of future MCC investments. Insights from implementation in Honduras that have strengthened MCC's approach include:

### COMPACT NOTE

The targets included in the original compact changed during compact implementation due to increased construction costs, updates to the monitoring and evaluation (M&E) plan, and project fund reallocations. MCC is committed to transparency and publishes a wide range of documents evidencing compact implementation, including M&E data, that can be tracked throughout the life of the compact.

- ★ **MCC will act on our commitment to the principles of democratic governance:** In September 2009, MCC's Board of Directors decided to terminate \$10 million of MCC's assistance to Honduras in response to a pattern of actions that was inconsistent with a commitment to democratic governance. MCC's Board of Directors—composed of U.S. Government and private sector leaders—played a critical role in understanding and responding to changes in country partner performance and making tough decisions when poor performance warranted suspension or termination of MCC eligibility or programs.
- ★ **Investment grade projects attract additional financing:** In the Transportation Project, MCC and MCA-Honduras identified a potential budget shortfall that was due in part to increasing costs for petroleum and construction inputs and to an enhanced project scope. MCC and the GoH leveraged MCC's investment to access additional resources from the Central American Bank for Economic Integration (CABEI). With technical designs funded by MCC, the GoH secured CABEI funding in order to fully implement the project. This type of change in costs is a natural part of many long-term investments – particularly in infrastructure – but MCC's focus on high return projects allows MCC and country partners to attract additional financing to help manage similar challenges in a number of compacts.
- ★ **MCC's five-year compact timeframe places a premium on establishing implementation structures before implementation begins:** Honduras underwent a national political transition very shortly after the MCC compact was signed, which resulted in delays in setting up the key structures for program implementation, such as full staffing for MCA-Honduras, detailed project planning, and establishing the MCA-Honduras board of directors. All of this resulted in a slow start to the compact. Learning from this experience, MCC and partner countries have since focused on getting key implementation structures in place before compacts enter into force, so programs do not lose valuable implementation time within the five-year compact timeframe.

## Sustainability of Impacts

MCC's investments aim to address fundamental barriers to growth and poverty reduction and to generate significant new income for beneficiaries long after MCC compact programs end. To have their full impact today and for years to come, MCC's investments cannot happen in isolation. That is why MCC and partner countries look closely at surrounding conditions in which an investment will be made and plan reforms in areas that would limit its impact and sustainability. These can be changes to national policies, laws, regulations, or even ways of doing business. Below are **examples of reforms that have accompanied MCC investments in Honduras**. These reforms help unlock the full

potential of MCC projects, and they help improve the broader conditions for continued growth and investment in Honduras.

**Increasing Access to Credit through a Movable Property Registry:** As part of the compact, the GoH passed a law that allows small and medium-sized business owners and non-land owners, including farmers and women entrepreneurs, to increase their access to credit. This law and the accompanying registry system allow credit seekers to use an entirely new category of property as collateral. Farmers and entrepreneurs can now expand their options for collateral beyond real estate to include their equipment, shop inventory, future crops, tractors, supply contracts, and sewing machines.

**Making Sure that Roads Last:** To help sustain the maintenance of improved roads, MCC funded the design of a weight control system and promoted passage of legislation to manage weight control. Although MCC did not fund the weight control system activity, the GoH recognized the importance of sustaining the benefits of road investments and secured World Bank assistance to construct and operate a weight control system based on MCC's design.

To further ensure the sustainability of roads, MCC supported GoH legislation to strengthen authorities and budget for the national road maintenance authority, Fondo Vial. In addition, the GoH significantly increased its own funding for road maintenance. The GoH road maintenance budget was less than \$40 million per year in the time leading up to the MCC compact in 2005. As part of the MCC compact, the GoH increased its own road maintenance funding to \$64 million by 2010.



## MCC's Integrated Development Approach

MCC's compact with Honduras takes an integrated approach, linking investments in transportation and agricultural development. To enhance the long-term impact of these investments, and to improve the country's continued potential for growth, MCC and Honduras worked on complementary policy reforms. While each beneficiary's experience is different, the story of one individual, José Ordóñez, captures the integrated nature of MCC's investments in Honduras, and the results those investments have yielded from the perspective of one individual, José Ordóñez. While each beneficiary's experience is different, Mr. Ordóñez's story offers a good example of how MCC investments in Honduras have worked.

Here is how José Ordóñez story helps to illustrate the broader story of the Honduras compact:



José Ordóñez used to grow maize and hardly earned enough money to support his wife and children.

Three years ago, Mr. Ordóñez switched to growing papaya and guavas (crops that sell at higher prices and are demanded by the market), as a result of the new skills and knowledge gained from the compact's Rural Development Project.



Because he adopted these agricultural practices, Mr. Ordóñez increased his earnings and was able to make improvements to his home and provide his children with greater opportunities. Since he lives along a recently improved rural road that connects to an improved secondary road that, in turn, connects to the CA-5 highway, (all of which were funded by the MCC compact and temporarily employed over 4,000 people), Mr. Ordóñez can now get his papayas and guavas to market quicker.



Business owners along the CA-5 highway (the vital CA-5 corridor that runs between Tegucigalpa and Puerto Cortés, the principal port in Central America) have reported increased traffic and more people stopping to buy the products they sell. To ensure the sustainability of these roads, MCC supported the Honduran government's efforts to develop legislation that better addresses road maintenance.



**U.S. development assistance is already making a sustained difference in the lives of millions of people in Honduras and around the world.**