



OFFICIAL USE ONLY
IDA/R2017-0129/1

May 1, 2017

**Closing Date: Thursday, May 18, 2017
at 6 p.m.**

FROM: Vice President and Corporate Secretary

Honduras - Rural Competitiveness Project
Additional Financing and Restructuring
Project Paper

Attached is the Project Paper regarding a proposed additional credit and a restructuring to Honduras for a Rural Competitiveness Project (IDA/R2017-0129), which is being processed on an absence-of-objection basis.

Distribution:

Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank Group authorization.

Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: PAD 1766

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL CREDIT

IN THE AMOUNT OF SDR 18.5 MILLION
(US\$25.0 MILLION EQUIVALENT)

TO THE

REPUBLIC OF HONDURAS

AND A PROPOSED RESTRUCTURING

FOR THE

RURAL COMPETITIVENESS PROJECT
(COMRURAL)

April 27, 2017

Agriculture Global Practice
Latin American and the Caribbean Region

CURRENCY EQUIVALENTS
(Exchange Rate Effective March 21, 2017)

Currency Unit = Lempira
23.53 Lempira = US\$1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ACS	Alliance for the Dry Corridor
AF	Additional Financing
BP	Business Plan
COMRURAL	Rural Competitiveness Project
ERR	Economic Rate of Return
ESMF	Environmental and Social Management Framework
FM	Financial Management
GAFSP	Global Agriculture and Food Security Program
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GRS	Grievance Redress Service
IDA	International Development Association
INVEST-H	Honduran Strategic Investment Office
IPPF	Indigenous Peoples' Planning Framework
IRM	Immediate Response Mechanism
MIS	Management Information System
OP/BP	Operational Policy / Bank Procedure
PDO	Project Development Objective
PIU	Project Implementation Unit
PPSD	Project Procurement Strategy for Development
RPF	Resettlement Policy Framework
RPO	Rural Producer Organization
SAG	Ministry of Agriculture and Livestock
SDR	Special Drawing Right
SEFIN	Ministry of Finance
TA	Technical Assistance
US	United States
WB	World Bank

Vice President:	Jorge Familiar
Country Director:	J. Humberto Lopez
Senior Global Practice Director:	Juergen Voegele
Acting Practice Manager:	Garry Charlier
Task Team Leaders:	Norman Piccioni/Eli Weiss

HONDURAS
RURAL COMPETITIVENESS PROJECT (COMRURAL)
ADDITIONAL FINANCING

TABLE OF CONTENTS

Project Paper Data Sheet	i
Project Paper	
I. Introduction	1
II. Background and Rationale for Additional Financing	1
III. Proposed Changes	4
IV. Appraisal Summary	13
V. World Bank Grievance Redress	17
Annexes	
1. Revised Results Framework and Monitoring and Evaluation	18
2. Revised Project Description and Components	26
3. Changes in Implementation Arrangements	32
4. Economic and Financial Analysis	36
5. Climate Co-Benefits and Net Carbon Balance Analysis	41
6. Map	43

ADDITIONAL FINANCING DATA SHEET

Honduras

Additional Financing for Rural Competitiveness Project (COMRURAL) (P158086)

LATIN AMERICA AND CARIBBEAN

GFA04

Basic Information – Parent									
Parent Project ID:	P101209	Original EA Category:	B - Partial Assessment						
Current Closing Date:	29-Sept-2017								
Basic Information – Additional Financing (AF)									
Project ID:	P158086	Additional Financing Type (from AUS):	Scale Up						
Regional Vice President:	Jorge Familiar	Proposed EA Category:	B						
Country Director:	J. Humberto Lopez	Expected Effectiveness Date:	1-Sep-2017						
Senior Global Practice Director:	Juergen Voegele	Expected Closing Date:	30-Nov-2020						
Practice Manager/Manager:	Garry Charlier (Acting)	Report No:	PAD1766						
Team Leader(s):	Norman Bentley Piccioni Eli Weiss								
Borrower									
Organization Name	Contact	Title	Telephone	Email					
República de Honduras	Wilfredo Cerrato	Minister of Finance	+504 22387780	wcerrato@sefin.gob.hn					
Project Financing Data - Parent (Honduras Rural Competitiveness Project-P101209) (in USD Million)									
Key Dates									
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date		
P101209	IDA-44650	Effective	17-Jun-2008	17-Sep-2008	28-May-2010	30-Nov-2015	29-Sep-2017		
Disbursements									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P101209	IDA-44650	Effective	XDR	18.40	14.00	4.40	13.15	0.85	93.9

Project Financing Data - Additional Financing for Rural Competitiveness Project (COMRURAL) (P158086)(in USD Million)				
<input type="checkbox"/>	Loan	<input type="checkbox"/>	Grant	<input type="checkbox"/> IDA Grant
<input checked="" type="checkbox"/>	Credit	<input type="checkbox"/>	Guarantee	<input type="checkbox"/> Other
Total Project Cost:	35.43	Total Bank Financing:	25.0	
Financing Gap:	0.00			
Financing Source – Additional Financing (AF)				Amount
BORROWER/RECIPIENT				0.00
International Development Association (IDA)				25.00
Borrowing Country's Fin. Intermediaries				7.38
Local Farmer Organizations				3.05
Total				35.43
Policy Waivers				
Does the project depart from the CAS in content or in other significant respects?				No
Explanation				
Does the project require any policy waiver(s)?				No
Explanation				
Team Composition				
Bank Staff				
Name	Role	Title	Specialization	Unit
Norman Bentley Piccioni	Team Leader (ADM Responsible)	Senior Rural Development Specialist		GFA04
Eli Weiss	Team Leader	Senior Rural Development Specialist		GFA04
Leonel Jose Estrada Martinez	Procurement Specialist (ADM Responsible)	Procurement Specialist		GGO04
Jose Simon Rezk	Financial Management Specialist	Senior Financial Management Specialist		GGO22
Escarlata Baza Nunez	Counsel	Counsel		LEGLE
Maria Virginia Hormazabal	Team Member	Finance Officer	Finance Officer	WFALN

Mariela Mena	Safeguards Specialist	Consultant	Social Development	GWADR
Miki Terasawa	Team Member	Consultant	Social Development	GSU06
Ramon Ernesto Arias Moncada	Team Member	Agriculture Specialist	Agribusiness/Project Design & Monitoring	GFA04
Gunars Platais	Safeguards Specialist	Senior Environmental Economist	Environmental Specialist	GEN04
Extended Team				
Name		Title	Location	
Juan Morelli		Consultant	Montevideo, Uruguay	
Locations				
Country	First Administrative Division	Location	Planned	Actual
Honduras	Santa Bárbara	Departamento de Santa Bárbara		X
Honduras	Ocotepeque	Departamento de Ocotepeque		X
Honduras	Lempira	Departamento de Lempira		X
Honduras	La Paz	Departamento de La Paz		X
Honduras	Intibucá	Departamento de Intibucá		X
Honduras	Francisco Morazán	Departamento de Francisco Morazán	X	
Honduras	El Paraíso	Departamento de El Paraíso	X	
Honduras	Cortés	Departamento de Cortés	X	
Honduras	Copán	Departamento de Copán		X
Honduras	Comayagua	Departamento de Comayagua		X
Honduras	Choluteca	Departamento de Choluteca	X	
Honduras	Atlántida	Departamento de Atlántida	X	
Honduras	Colón	Departamento de Colón	X	
Institutional Data				
Parent (Honduras Rural Competitiveness Project-P101209)				
Practice Area (Lead)				
Agriculture				
Contributing Practice Areas				
Cross Cutting Topics				
[] Climate Change				
[] Fragile, Conflict & Violence				
[X] Gender				

<input checked="" type="checkbox"/> Jobs				
<input type="checkbox"/> Public Private Partnership				
Sectors / Climate Change				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Industry and trade	Agro-industry, marketing, and trade	48	N/A	
Agriculture, fishing, and forestry	General agriculture, fishing and forestry sector	42	N/A	
Public Administration, Law, and Justice	Central government administration	10	N/A	
Total		100		
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Rural development	Rural non-farm income generation	33		
Rural development	Rural policies and institutions	33		
Rural development	Rural services and infrastructure	17		
Rural development	Rural markets	17		
Total		100		
Additional Financing for Rural Competitiveness Project (COMRURAL) (P158086)				
Practice Area (Lead)				
Agriculture				
Contributing Practice Areas				
Climate Change, Environment & Natural Resources, Gender, Jobs				
Cross Cutting Topics				
<input checked="" type="checkbox"/> Climate Change				
<input type="checkbox"/> Fragile, Conflict & Violence				
<input checked="" type="checkbox"/> Gender				
<input checked="" type="checkbox"/> Jobs				
<input type="checkbox"/> Public Private Partnership				
Sectors / Climate Change				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-	Mitigation

			benefits %	Co-benefits %
Industry and trade	Agro-industry, marketing, and trade	30	0	0
Agriculture, fishing, and forestry	General agriculture, fishing and forestry sector	60	50	10
Public Administration, Law, and Justice	Central government administration	10	0	0
Total		100		
<input type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.				
Green House Gas Accounting				
Net Emissions	1.38 tCO2/t	Gross Emissions	42.18 tCO2/t	
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme		%	
Rural development	Rural services and infrastructure		45	
Rural development	Rural markets		45	
Rural development	Rural non-farm income generation		10	
Total			100	
Consultants (Will be disclosed in the Monthly Operational Summary)				
Consulting services to be determined				

I. Introduction

1. **This Project Paper seeks the approval of the Executive Directors to: (i) provide an Additional Financing (AF) in the amount of US\$25.0 million to the Honduras Rural Competitiveness Project (*Proyecto de Competitividad Rural*, COMRURAL, P101209, IDA-4465-HN); and (ii) restructure COMRURAL to revise the Project Development Objective (PDO) and trigger a new safeguard policy.** The AF would scale-up and expand activities to enhance the impact of a well-performing Project that has proven effective in improving rural income and reducing the poverty gap, thus maximizing development impact and results in line with OP 10.00. To do this, it would: (i) further support existing productive alliances as well as support new productive alliances in the original Project area; (ii) establish new productive alliances in six new departments; (iii) further support value chains prioritized under public policy in the Project area; and (iv) finance institutional strengthening activities to improve the overall competitiveness of the agriculture sector. The AF would benefit around 5,500 additional rural households, largely indigenous, and continue promoting participation of women and use of good environmental and agricultural practices to contribute to climate adaptation and mitigation.

2. **The restructuring will result in a number of changes to the parent Project.** These include: (i) revision of the PDO to include an Immediate Response Mechanism (IRM) triggered in the event of an eligible emergency¹; (ii) triggering of the Involuntary Resettlement Policy (OP/BP 4.12) to manage possible involuntary resettlement cases; (iii) introduction of two new Components to support cross-cutting institutional strengthening and IRM activities; (iv) revision of the Results Framework to reflect adjusted outcomes and targets; (v) modification of the Project's implementation arrangements to reflect the role of the Honduran Strategic Investment Office (INVEST-H) as the new implementing agency; and (vi) extension of the original credit closing date to November 30, 2020 to align it with the AF closing date.

II. Background and Rationale for Additional Financing

3. **Country Context.** Honduras' recent economic performance has been positive, yet the country remains vulnerable to climate related events and other shocks. Real Gross Domestic Product (GDP) growth increased from 3.6 percent in the first half of 2015 to 3.8 percent in the same period of 2016, supported by improved investor confidence, reduction in capital goods imports, and recovery of agro-industrial exports. The economy suffered several shocks between 2013 and 2015, including: (i) weaker growth of trade partners; (ii) a fall in coffee production, the country's main export, due to the leaf rust disease that affected over 25 percent of the cultivated area, coupled with lower coffee international prices; and (iii) droughts affecting food security. Honduras is highly vulnerable to climate change and related shocks: in 1998, Hurricane Mitch destroyed 70 percent of the country's crops and 70 percent of the nation's transport infrastructure, resulting in economic damages estimated at around 81 percent of GDP.

4. **Similar to other small developing economies, the country's contributions to global carbon dioxide is minimal, less than 0.1 percent of the world total.** Given the need to protect

¹. "Eligible Emergency" means an event that has caused, or is likely to imminently cause, a major adverse economic and/or social impact to the Recipient, associated with a natural or man-made crisis or disaster.

its fragile environment and climate change vulnerability, Honduras has signed and ratified several Multilateral Environmental Agreements, including the United Nations Convention on Biological Diversity, the United Nations Convention to Combat Desertification and the United Nations Framework Convention on Climate Change. This commits the country to reducing Green House Gas (GHG) emissions by 15 percent in 2030, and developing, updating, and publishing national inventories of anthropogenic emissions by source, and removal by carbon sinks of all GHG.

5. **Poverty is largely concentrated in rural areas, where the vast majority of the population relies on agriculture as their main source of income.** In 2013, almost 65 percent of Honduran households lived in poverty and 43 percent lived in extreme poverty, with the rural poor accounting for 56 percent of the poor and 67 percent of the extreme poor. Rural poverty is concentrated mostly in the western and southern areas (the Dry Corridor). The rural poor rely largely on agriculture for income: over 70 percent of agricultural families work in subsistence farming, a type of farming associated with low competitiveness, low value-added and, as a result, low revenue generation. Without adequate planning, financing or access to technical knowledge, small producers are at a disadvantage in an increasingly competitive market.

6. **COMRURAL is the Government's flagship Project to promote agricultural competitiveness in Honduras.** COMRURAL successfully established a business model to support increases in productivity and competitiveness in high value crops, such as specialty coffee, by helping small-scale producers to access credit, inputs, extension services, certifications, post-harvest processing, and markets. As a result, COMRURAL has become an integral part of the Government's approach in linking small-scale producers to domestic or international markets. COMRURAL is also a key pillar of the Alliance for the Dry Corridor (ACS), Honduras' flagship program for food and nutrition security. The ACS supports interventions for the vulnerable population in the Dry Corridor, characterized by the country's highest levels of poverty and malnutrition. While the ACS supports the extreme poor and subsistence farmers to increase productivity, diversify into higher value crops and off-farm activities, and form and strengthen producer groups, COMRURAL focuses on linking organized rural producer organizations (RPOs) to markets, and supporting RPOs that have graduated from other projects, having achieved a certain level of capacity. As new opportunities are being created along the value chain (through agro-processing, marketing and logistics), RPOs are able to improve their market position and the competitiveness of rural areas linked to a particular commodity.

7. ***Project Background and Performance.*** **The Project was approved on June 17, 2008, financed by an IDA credit of SDR18.4 million (equivalent to US\$30.0 million) and a parallel grant of US\$4.0 million from the Swiss Agency for Development and Cooperation.** It became effective on May 28, 2010, and had an original closing date of November 30, 2015. COMRURAL was restructured five times, including a partial cancellation of SDR 4.4 million (September 19, 2011). The current closing date is September 29, 2017. The PDO is to contribute to increased productivity and competitiveness among organized rural small-scale producers through their participation in productive alliances. The Project finances three Components: (i) *Support for Productive Alliances*, supporting pre-investment activities to create productive alliances between RPOs and commercial, financial and technical partners, identification of

business opportunities, and preparation of Business Plans (BPs); (ii) *Productive Investments*, providing grants to co-finance the implementation of feasible BPs prepared under Component 1; and (iii) *Project Coordination, Monitoring and Evaluation*, financing the incremental costs associated with Project administration and monitoring.

8. **The Project is on track to achieve its PDO.** As of December 2016, COMRURAL benefitted 7,200 small-scale rural producers (exceeding the revised target by 136 percent) organized in 123 RPOs and 123 productive alliances (surpassing the revised target of 120 RPOs and 120 productive alliances). The Project also supported the development and implementation of 89 BPs (benefitting 1-2 RPOs or around 60 members per BP). Supporting more RPO members with fewer BPs attracted more private sector financing or marketing partners and reduced transaction costs.

9. **Each BP includes the necessary strategic investments to improve the competitiveness of RPOs in pre-identified markets, using a “productive alliance” approach.** A productive alliance entails a business alliance between a RPO, a technical assistance (TA) service provider, and a commercial financial institution for the purpose of meeting the demand of an identified buyer or market. The BPs have financed US\$24.5 million of productive investments in rural areas, 51 percent of which was provided as grants from COMRURAL, 34 percent as loans on market terms from private financial institutions, and 15 percent as counterpart funding from RPOs. The BPs focused on the following value chains: specialty coffees (53 percent), vegetables (20 percent), fruits (4 percent), livestock and milk products (8 percent), honey production (5 percent), basic grains (5 percent), cultural products (3 percent), fish farming (1 percent), and rural tourism (1 percent). Of the direct beneficiaries, 49 percent are indigenous from the Lenca and Maya-Chorti ethnic groups, 28 percent are women and 14 percent are youth. RPO members increased their income by around 28 percent (adjusted for inflation) due to the increase in the value of gross sales, labor productivity, processing capacity, and better market prices, particularly for specialty coffee.

10. **Procurement has been Satisfactory, although financial management (FM) faced shortcomings.** FM performance had been Moderately Unsatisfactory in 2014 and 2015 due to shortcomings in the capacity of the Project Implementation Unit (PIU) to provide timely, reliable and comprehensive information required to monitor implementation, especially at the subproject level. To address these issues, a FM Action Plan was developed, and upon satisfactory implementation of the Plan, the FM performance rating was upgraded to Moderately Satisfactory in March 2016. The Project has complied with all legal covenants, has no outstanding audits, and has no other unresolved fiduciary, environmental, social or legal safeguard issues.

11. **Rationale for AF. The AF would scale up and expand geographically successful activities, and restructure the Project to further increase its development impact.** The AF would scale up the activities by supporting new productive alliances in value chains prioritized under public policy in the original Project intervention area and in six new departments, namely Atlántida, Choluteca, Colón, Cortés, El Paraíso, and Francisco Morazán. It would also finance additional institutional strengthening activities under a new Component to improve the competitiveness of the agriculture sector. Successful poverty reduction in rural areas is linked to the ability of the poor to add value to their productive activities and diversify their livelihoods, while conserving the environment. There are many sites where farming is limited due to dry

weather and/or unstable eroded soil condition, so poverty reduction requires collaboration for off-farm value chain development. This leads to higher levels of farm gate prices and income, and reduced vulnerability to shocks due to weather and/or market conditions. These opportunities are usually more accessible through rural RPOs. Hence, the use of additional public funds is justified. The restructuring would enable the Government to respond to an eligible emergency thus increasing resilience to potential shocks, and trigger the Involuntary Resettlement policy to manage possible involuntary resettlement cases and increase development impact. The AF was deemed the most appropriate instrument to scale up activities given the good performance of the parent Project.

12. **The AF would put greater emphasis on enhancing resilience to climate change.** Honduras is increasingly exposed to climate variability, with negative impacts on the agriculture sector. Climate change exacerbates high levels of poverty and food insecurity while deforestation and increasingly variable weather conditions make subsistence agriculture more challenging. The vulnerability of the sector is, in part, due to agriculture being mainly rain-fed, with only 15 percent of cultivated land under irrigation. The AF supports investments in technological packages that dramatically improve resilience. The AF would also support Government’s efforts to reduce GHG emissions by 2030 and increase the capacity of carbon sinks by: (i) strengthening on-farm management, such as handling of crop residue and optimizing use of fertilizers; (ii) improving soil management; (iii) restoring degraded land, through use of perennial and high value crops, such as coffee, cacao, fruit trees, litchis, and cashews; and (iv) promoting drought-tolerant crop varieties.

13. **COMRURAL contributes to the World Bank’s (WB) objectives of fostering inclusion while bolstering conditions for growth and reducing vulnerabilities as outlined in the Country Partnership Framework FY16-FY20 for Honduras.**² The WB’s strategic engagement in Honduras focuses on the following pillars: (i) fostering inclusion; (ii) bolstering conditions for growth; and (iii) reducing vulnerabilities to enhance resilience. The original Project and the AF would contribute to these by increasing access to finance and enhancing rural productivity.

III. Proposed Changes

Summary of Proposed Changes	
<p>14. Changes include revision of the PDO, triggering of a new safeguard policy, addition of two new Components, updating of the Results Framework, modification of the implementation arrangements, and revision of the closing date. The restructuring would: (i) revise the PDO to reflect the IRM; (ii) trigger the Involuntary Resettlement Policy (OP/BP 4.12); (iii) add two new Components to support cross-cutting institutional strengthening and create the IRM; (iv) update the Results Framework; (v) modify the Project’s implementation arrangements; and (vi) align the closing dates of the Project and the AF.</p>	
Change in Implementing Agency	Yes [X] No []

² Country Partnership Framework for the Republic of Honduras for the Period FY16-FY20, Report No. 98367-HN, as discussed by the Executive Directors on December 15, 2015.

Change in Project's Development Objectives	Yes [X] No []
Change in Results Framework	Yes [X] No []
Change in Safeguard Policies Triggered	Yes [X] No []
Change of EA category	Yes [] No [X]
Other Changes to Safeguards	Yes [] No [X]
Change in Legal Covenants	Yes [X] No []
Change in Loan Closing Date(s)	Yes [X] No []
Cancellations Proposed	Yes [] No [X]
Change in Disbursement Arrangements	Yes [] No [X]
Reallocation between Disbursement Categories	Yes [] No [X]
Change in Disbursement Estimates	Yes [X] No []
Change to Components and Cost	Yes [X] No []
Change in Institutional Arrangements	Yes [X] No []
Change in Financial Management	Yes [X] No []
Change in Procurement	Yes [X] No []
Change in Implementation Schedule	Yes [X] No []
Other Change(s)	Yes [] No [X]

Development Objective/Results	PHHHDO
--------------------------------------	--------

Project's Development Objectives

Original PDO 15. The PDO is to contribute to increased productivity and competitiveness among organized rural small-scale producers through their participation in productive alliances.

Change in Project's Development Objectives

Explanation: 16. The Government of Honduras, in response to the threat posed by El Niño, requested inclusion of a zero allocation Component in all WB-financed projects, including COMRURAL. Uncommitted Project funds would be channeled through the Component to facilitate quick response in case of an eligible emergency. This requires the addition of an objective related to the IRM.

Proposed New PDO - Additional Financing (AF)
--

17. The revised PDOs are to: (a) contribute to increased productivity and competitiveness of organized rural small-scale producers of Honduras through their participation in productive alliances; and (b) enable the Government to respond promptly and effectively to an eligible emergency.
--

Change in Results Framework

Explanation:

18. **The Results Framework, including the PDO indicators, is being updated.** Changes to the matrix include: (i) at PDO level, conversion of two indicators into intermediate results indicators, and addition of three new indicators; (ii) at intermediate results level, inclusion of institutional core sector indicators, addition of five new indicators, including one for the new IRM Component and two for the cross-cutting institutional strengthening Component; (iii) removal of target values from the formulation of four original PDO indicators, and use of these target values as end-of-Project targets; (iv) deletion of four of the original intermediate indicators; (v) revision of the environmental indicator to reflect the use of applicable good practices per value chain, regardless of their inclusion in the BP; and (vi) alignment of target values and dates with the new scope and closing date of the AF.

Compliance

Change in Safeguard Policies Triggered

Explanation:

19. **The AF will trigger Involuntary Resettlement (OP/BP 4.12), which was not triggered under the parent Project.** While the implementation of COMRURAL has thus far not involved any resettlement of families or economic restrictions, the demand driven nature of the Project can result in unforeseen involuntary resettlement. In addition, some of the newly added departments face land insecurity issues. By triggering the policy as a precautionary measure, the Project will be prepared to respond to any potential resettlement case if needed. The Resettlement Policy Framework (RPF) was prepared as part of the updated Environmental and Social Management Framework (ESMF). Both the RPF and the ESMF were consulted between April and May 2016 and disclosed on the INVEST-H and WB's external websites on April 6, 2016 and further updated and disclosed on INVEST-H website on January 26, 2017 and WB's external website on January 30, 2017.

Current and Proposed Safeguard Policies Triggered:	Current(from Current Parent ISDS)	Proposed(from Additional Financing ISDS)
Environmental Assessment (OP) (BP 4.01)	Yes	Yes
Natural Habitats (OP) (BP 4.04)	Yes	Yes
Forests (OP) (BP 4.36)	Yes	Yes
Pest Management (OP 4.09)	Yes	Yes
Physical Cultural Resources (OP) (BP 4.11)	Yes	Yes
Indigenous Peoples (OP) (BP 4.10)	Yes	Yes
Involuntary Resettlement (OP) (BP 4.12)	No	Yes
Safety of Dams (OP) (BP 4.37)	No	No
Projects on International Waterways (OP) (BP 7.50)	No	No
Projects in Disputed Areas (OP) (BP 7.60)	No	No

Covenants - Additional Financing (Rural Competitiveness Project (COMRURAL) - P158086)

Source of Funds	Finance Agreement Reference	Description of Covenants	Date Due	Recurr.	Frequency	Action

IDA	Schedule 2 Sec I.A.1	The Recipient shall establish and maintain throughout Project implementation a steering committee (the Steering Committee) responsible for Project oversight and coordination, comprised of representatives of SEFIN, INVEST-H, SAG, Ministry of Economic Development, RPOs and the private sector.		<input checked="" type="checkbox"/>	Continuous	
IDA	Schedule 2 Sec I.A.2	The Recipient shall ensure that INVEST-H is operated and maintained with functions, staffing, and responsibilities satisfactory to the Association, as set forth in the Operational Manual.		<input checked="" type="checkbox"/>	Continuous	New
IDA	Schedule 2 Sec I.A.3	No later than ninety (90) calendar days from the Effective Date, the Recipient, through INVEST-H, shall hire the following staff: (i) a dedicated financial management specialist for its central office; and (ii) a dedicated financial management officer for rural support.		<input checked="" type="checkbox"/>	Continuous	New
IDA	Schedule 2 Sec I.C	The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-corruption Guidelines		<input checked="" type="checkbox"/>	Continuous	
IDA	Schedule 2 Sec I.D.1 (c)	The Recipient shall ensure that the selection of each RPO and Productive Subproject complies with the process and eligibility criteria set forth in the Operational Manual, <i>inter alia</i> , that the business plans of each Productive Subproject shall be approved by an evaluation committee, satisfactory to the Association, composed of: (i) one value chain specialist; (ii) environmental and social specialists; (iii) one financial specialist; and (iv) one outside expert selected and contracted by the Recipient on an <i>ad hoc</i> basis, depending on types of productive alliances proposed and their respective value chains, and in accordance with terms of reference set forth in the Operational Manual. Final decisions made by this evaluation committee shall be ratified by the Steering Committee and made publicly available.		<input checked="" type="checkbox"/>	Continuous	New
IDA	Schedule 2 Sec I.D.2	Before the carrying out of each Productive Subproject, the Recipient shall enter into an agreement with each RPO (the Productive Grant Agreement) under terms and conditions satisfactory to the Association		<input checked="" type="checkbox"/>	Continuous	

		and set forth in the Operational Manual.				
IDA	Schedule 2, Sec I.E.1	The Recipient, through INVEST-H, shall carry out Parts 1, 2 and 3 of the Project, and shall ensure that the RPOs carry out the Productive Subprojects in accordance with the ESMF, containing <i>inter alia</i> the RPF and IPPF.		<input checked="" type="checkbox"/>	Continuous	New
IDA	Schedule 2 Sec I.E.5	The Recipient shall ensure that: (i) the terms of reference for any consultancy required under Part 4 of the Project shall be satisfactory to the Association following its review thereof.		<input checked="" type="checkbox"/>	Continuous	New
IDA	Schedule 2 Sec I.F.1.	The Recipient shall: (a) not later than three months after the Effective Date, hire independent auditors, acceptable to the Association, and under terms of reference acceptable to the Association, to carry out operational audits integrating the results of the implementation of Part 2.A of the Project; and (b) not later than 90 days after the end of the period covered by each said audit, submit report to the Association.		<input checked="" type="checkbox"/>	Yearly	New
IDA	Schedule 2, Sec I.F.2.	For the purposes of carrying out Part 2.B. of the Project, the Recipient shall maintain throughout Project implementation, a credit guarantee fund satisfactory to the Association, set up with the Recipient's own resources, to be used exclusively to guarantees loans for Productive Subprojects, in accordance with the structure and procedures set forth in the Operational Manual.		<input checked="" type="checkbox"/>	Continuous	New
IDA	Schedule 2, Sec I.G.2	The Recipient shall, throughout the implementation of the IRM Part, maintain the Coordinating Authority, with adequate staff and resources satisfactory to the Association.		<input checked="" type="checkbox"/>	Continuous	New

Conditions

Effectiveness: Operational Manual has been updated and adopted in a manner and with contents acceptable to the Association (Article V, 5.01).

Withdrawal: No withdrawal shall be made for payments under Category (3), for Emergency Expenditures under Part 5 of the Project, unless and until the Association is satisfied, and notified the Recipient of its satisfaction, that all of the following conditions have been met in respect of said

activities: (i) the Recipient has determined that an Eligible Emergency has occurred, (ii) the Recipient has prepared and disclosed all safeguards instruments required for said activities, and (iii) the Recipient's Coordinating Authority has adequate staff and resources (Schedule 2, Section IV.B.1(b)).

Risk	
Risk Category	Rating (H, S, M, L)
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Low
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	n/a
OVERALL	Substantial

Finance	
Loan Closing Date - (Additional Financing for Rural Competitiveness Project (COMRURAL) - P158086)	
Source of Funds	Proposed Additional Financing Loan Closing Date
IDA Credit	30-Nov-2020

Loan Closing Date(s) - Parent (Honduras Rural Competitiveness Project - P101209)

Explanation:

20. **The Closing Date of the Project will be extended to November 30, 2020 to be aligned with the closing date of the AF.**

Ln/Cr/TF	Status	Original Closing Date	Current Closing Date	Proposed Closing Date	Previous Closing Date(s)
IDA-44650	Effective	30-Nov-2015	29-Sep-2017	30-Nov-2020	31-Dec-2016

Change in Disbursement Estimates

Explanation:

21. **Expected disbursements under the AF are as follows:**

Expected Disbursements (in USD Million) (including all Sources of Financing)

Fiscal Year	2018	2019	2020	2021
Annual	9.7	13.5	1.0	0.8
Cumulative	9.7	23.2	24.2	25.0

Allocations - Additional Financing for Rural Competitiveness Project (COMRURAL) - P158086) (in USD 1000)

Source of Fund	Currency	Category of Expenditure	Allocation	Disbursement % (Type Total)
			Proposed	Proposed
IDA	USD	Goods, works, non-consulting services, consulting services (incl. audits), Training & Operating Costs for the Project (except for Parts 2A and 5 of Project)	12,455.00	100.00
IDA	USD	Goods, works, non-consulting services and consulting services for Productive Subprojects under Part 2.A of the Project	12,545.00	100.00
IDA	USD	Emergency Expenditures under Part 5 of the Project	0.00	100.00
		Total:	25,000.00	

Components

Change to Components and Cost

Explanation:

22. **The AF will scale up the activities under the parent Project and expand to six new departments.** The six new departments were selected using the same criteria used for the parent Project with an additional parameter taking into account the country's comparative and competitive advantage for specific high value crops, and its recognized market position. Therefore, the new expanded Project area includes 13 departments.

23. **The overall design and scope of the Project remains unchanged, however the AF will include two new Components on institutional strengthening and an emergency response.** A cross-cutting institutional strengthening Component scales up several institutional strengthening activities that in the original Project were of a smaller scale and embedded in Components 1 and 3, while an IRM Component with zero allocation was included to enable the Government to respond rapidly to an eligible emergency be declared.

24. **The AF provides support for five Components.** These include: (i) *Component 1: Support to Value Chains prioritized under Public Policy* (US\$3.7 million IDA-4465-HN; US\$6.8 million AF; US\$10.5 million in total); (ii) *Component 2: Productive Investments in Value Chains prioritized under Public Policy* (US\$11.8 million IDA-4465-HN; US\$12.5 million AF; US\$24.3 million in total); (iii) *Component 3: Project Management, Monitoring and Evaluation* (US\$3.9 million IDA-4465-HN; US\$3.8 million AF; US\$7.7 million in total); (iv) *Component 4: Cross-Cutting Institutional Strengthening* (US\$1.9 million AF); and (v) *Component 5: Immediate Response Mechanism* (zero allocation).

25. **Detailed activities of each Component are as follows, with more details in Annex 2.**

- Component 1 will finance outreach and promotional activities to identify RPOs, commercial partners and private financing entities to form new alliances, as well as support the formulation of business proposals and BPs. TA provided under Component 1 will result in the development of plans, which when implemented under Component 2 will have climate co-benefits (adaptation and mitigation) estimated at 15 percent of the financing for Component 1.
- Component 2 is expected to finance 70 new BPs formulated under Component 1 as follows: (i) 17 new BPs for consolidation and scale up of existing productive alliances in the original Project area; and (ii) 53 BPs for new alliances, most in six new departments. Considering the types of investments likely to be financed, according to preliminary estimates, 60 percent of the financing for Component 2 will generate climate co-benefits (adaptation and mitigation).
- Component 3 will finance Project management, monitoring and evaluation of the overall Project, including a final impact evaluation.
- Component 4 will finance strategic activities to strengthen the agricultural sector, including: (i) consulting services to carry out key studies leading to identification of relevant issues in the main value chains and proposals for increasing competitiveness; (ii) studies to promote productive alliances, including inputs for an agriculture competitiveness strategy and product promotion, and preparation of basic studies in support of the design of a new follow on operation.
- Component 5 will be created to allow the Government to respond to an eligible emergency in a timely manner. No funding will be allocated to this Component at this time. However, if an eligible emergency occurs, it would provide a conduit for the use of uncommitted funds under the Project to implement key activities by the appropriate agencies to respond to this emergency. An IRM Operational Manual used for other projects in Honduras with the same Component clearly outlines the triggers, eligible expenditures and procedures for tapping into the contingency.

Current Component Name	Proposed Component Name	Current Credit IDA 4465 (US\$M)	Total Proposed IDA (US\$M)	Action
Support for Productive Alliances	Support to Value Chains as Prioritized under Public Policy	3.7	10.5	Revised
Productive Investments	Productive Investments in Value Chains as Prioritized under Public Policy	11.8	24.3	Revised
Project Coordination, Monitoring and Evaluation	Project Management, Monitoring and Evaluation	3.9	7.7	Revised
	Cross-Cutting Institutional Strengthening	0.00	1.9	New
	Immediate Response Mechanism	0.00	0.0	New
	Total:	19.4	44.4	

Other Change(s)

Change in Implementing Agency

Explanation:

26. **Responsibility for implementation of the AF will lie with INVEST-H.** On March 6, 2015, the Government transferred responsibility for technical implementation of the parent Project to INVEST-H, although fiduciary management remains with the Ministry of Finance (SEFIN). INVEST-H was created in 2005 to support strategic projects for the country's socio-economic development and is responsible for overall coordination and implementation of all projects under the umbrella of the ACS. Thus, through its newly created Rural Development Department, INVEST-H will be responsible for implementation of the AF to ensure a coordinated approach for all ACS projects. Certain staff of the original PIU have been recruited by the Rural Development Department to ensure continuity. Fiduciary management of the AF will be carried out by INVEST-H while the Project Administration Unit in SEFIN will retain responsibility for the fiduciary functions of the parent Project (See Annex 3 for further details).

Implementing Agency Name	Type	Action
Honduran Strategic Investment Office (INVEST-H)	Implementing Agency	New

Change in Institutional Arrangements

Explanation:

27. **INVEST-H will be responsible for overall coordination, implementation and fiduciary management of the AF.** This includes supervision of implementation of environmental and social risk management safeguards. Responsibility for fiduciary management of the original credit will remain with SEFIN. The Operational Manual will be revised to clearly define and delineate the responsibilities of each agency. The Operational Manual is a condition for effectiveness of the AF.

Change in Financial Management

Explanation:

28. **FM for the AF will be carried out by INVEST-H.** A FM capacity assessment of INVEST-H was undertaken and an action plan developed to strengthen its capacity and improve its processes, procedures and other arrangements. The Rural Development Department of INVEST-H has recruited certain staff of the original PIU. The Project Administration Unit in SEFIN will continue to be responsible for the fiduciary functions of the parent Project. Thus there will be parallel fiduciary agencies for a short period to ensure a smooth fiduciary transition (from effectiveness of the AF to the closing of original credit).

Change in Procurement

Explanation:

29. **Procurement for the AF will be carried out by INVEST-H.** A procurement capacity assessment of INVEST-H was carried out in February 2016, which found that it has the necessary capacity. The procurement team of INVEST-H has experience and knowledge of procurement processes of other multilateral organizations. However, its experience with WB Guidelines is limited. Moreover, the team currently only has four specialists although it is implementing six projects. To mitigate these risks, the procurement staff of the parent Project and procurement staff from INVEST-H participated in the WBs Regional Procurement training held in November 2016, and additional staff (two Senior Procurement Specialists and two Procurement Specialists) will be hired and trained within the first year of implementation to carry out the required procurement functions for the AF. Procedures related to the procurement of subprojects have been updated in the Operational Manual to include lessons learned to

ensure more effective coordination in planning activities. A Procurement Plan for the first 18 months of the AF was prepared. The AF will be implemented in accordance with the World Bank Procurement Regulations for Borrowers under Investment Project Financing (July 2016) (‘Procurement Regulations’) and the provisions stipulated in the Procurement Plan and the Operational Manual. A Project Procurement Strategy for Development (PPSD), prepared by INVEST-H, identified the appropriate selection methods, market approach, and type of review to be conducted by the WB. Most Project activities will be carried out through national or international competition.

Change in Implementation Schedule

Explanation:

31. **The Closing Date of the additional credit would be November 30, 2020.** This will ensure that all additional planned activities are satisfactorily completed in accordance with the revised and updated implementation plan and Project’s Operational Manual.

Appraisal Summary

Economic and Financial Analysis

Explanation:

32. **Under the COMRURAL approach, three parties – a RPO, a provider of TA, and a private financial institution - enter jointly into a partnership (alliance) to improve production, value addition, market position and ultimately sales on a benefit-sharing basis towards an identified market or buyer.** The Project essentially facilitates the establishment of this partnership, the preparation of BPs, their co-financing, and monitors progress and results incorporating feedback and lessons learned into the new cycle of calls for proposals. Expected benefits to RPOs members include enhanced linkages to markets under better contractual conditions, improved productivity, increased value added to production, and higher family incomes. The AF will support 70 new BPs for approximately 5,500 new direct beneficiaries (heads of households), as well as 27,500 indirect beneficiaries. In addition, because of the transmission along the value chain, 0.5 jobs are expected to be created for each direct beneficiary, adding about further 2,750 indirect beneficiaries.

33. **The Economic and Financial Analysis for the Project has been updated to include activities to be financed by the AF.** To quantify the benefits of the AF, four representative RPO alliances (coffee, vegetable, and livestock and milk) supported by the parent Project and two hypothetical RPO alliances for cocoa and cashew were assessed. The assumptions and estimates were derived from the on-going activities and the real changes observed in RPO’s business after 1 to 3 years of implementation of Project activities. The cost-benefit analysis compared the situation before and after the Project. The analysis indicates that the expected economic results are positive and stand robust against risks. The overall internal rate of return of the AF is expected to exceed 27.2 percent, which is above the original one (20 percent). The net present value of the AF would reach about US\$33 million (using a 12 percent discount rate). This estimate (see details in Annex 4) is conservative, as it does not take into account the Project’s indirect benefits or spillovers, such as increased well-being of beneficiary communities as a result of more food availability and improved housing, and the establishment of sustainable business relationships between producers, buyers, commercial banks and providers. The sensitivity of the analysis to major risks also assumes an increase in AF costs and a reduction in the number of supported communities in the targeted areas. In addition, an ex-post economic and financial analysis of the parent

Project has been prepared and is available in the Interim Project Completion Report.

Technical Analysis

Explanation:

34. **Primary public goods will continue to be provided through the existing Service and Program units of the Ministry of Agriculture and Livestock (SAG).** Technical service providers in the Project target area were identified and included in a “Positive List”, to ensure that they were sufficient in number and able to provide quality TA in the preparation and implementation of BPs. All of the 89 BPs supported under COMRURAL were found to be technically feasible. Activities under Component 1 strengthened the capacity of the RPOs to both prepare and implement quality BPs. About 28 private financial institutions and financial cooperatives co-financed the business plans under COMRURAL. It is estimated that the public resources of the Project leveraged approximately US\$9.4 million of private capital: private financing on average financed 52 percent of the grant portion of the BPs, just above the 50 percent target of the outcome indicator.

Social Analysis

Explanation:

35. **The Project has satisfactory track record in overseeing implementation of social safeguards management by the RPOs and technical service providers.** INVEST-H’s implementation team is qualified and will be further strengthened by recruiting an additional social specialist within the first six months of implementation. COMRURAL has demonstrated strong commitment to promotion of social good practices, monitored through the Project’s social indicator (“percentage of the BPs financed by the Project that successfully implement measures targeting the youth and indigenous communities, when applicable”). To date, 80 percent of BPs met these criteria, surpassing the target value of 70 percent for the indicator. COMRURAL also promotes social corporate responsibility to share Project benefits with community at large. As of December 2016, 75 percent of RPOs respect minimum wages, and 80 percent of them supported schools. To prevent potential risk of financing RPOs that use child labor, a specific clause will be introduced into the subproject grant agreements between RPOs and INVEST-H to ensure that organizations that violate the Honduran law on child labor will not be eligible for Project financing.

36. **Under the Parent Project, the Indigenous Peoples Policy (OP/BP 4.10) was triggered, and an Indigenous Peoples’ Planning Framework (IPPF) was prepared.** About 49 percent of RPO members are Lenca and Chortí ethnic minorities. With the additional six departments in the AF, the Project is expected to support Lenca, Tolupán, Pech, and Garífuna groups. As a result, the IPPF has been updated and continues to emphasize free prior informed consultation and IP participation in subproject identification, implementation, and monitoring. The IPPF was consulted between April and May 2016, and disclosed on the INVEST-H and WB’s external websites on April 6, 2016 and further updated and disclosed on INVEST-H website on January 26, 2017 and WB’s external website on January 30, 2017.

37. **The Involuntary Resettlement Policy (OP/BP 4.12) is also triggered for the AF.** During the preparation of the parent Project, the social assessment concluded there would be no need for involuntary resettlement, restriction of peoples’ access to their means of livelihood or land acquisition given the type of small-scale investments. Thus the policy was not triggered. Under the AF, the policy is triggered as a precautionary measure, because the demand driven nature of the Project may result in unforeseen situations. Additionally, the new departments of Atlántida and Colón present an accentuated

situation of land insecurity, and land is owned communally among some ethnic minorities, including Garífuna. The RPF was thus prepared as a precautionary measure and disclosed on the INVEST-H and WB external website on April 6, 2016, and further updated and disclosed on INVEST-H website on January 26, 2017, and on the WB's external website on January 30, 2017.

38. **The parent Project developed a Participation Plan to promote participation of women and youth in the identification, preparation, and implementation of subprojects, and the AF will continue to implement the Plan.** About 28 percent of beneficiary RPO members are women and 14 percent of those are youth under the parent Project. In the most prominent value chains, i.e. coffee, 45 percent of producers are women. Women play key roles in harvesting, sorting, and grading and thus the Project places special emphasis on women's participation in decision-making. During the AF preparation, women in new departments were consulted and expressed interest in Project activities. INVEST-H will continue to monitor women's participation and leadership through the Results Framework and the Management Information System (MIS).

39. **COMRURAL also features a citizen engagement mechanism.** Because of the demand-driven nature of the Project, it is important to ensure that targeted producers actively participate in the subproject cycle and are satisfied with technical and financial support provided by the Project and technical service providers. Currently 72 percent of RPO members are satisfied with agricultural services. In 2016, there were eight citizen engagement inquiries regarding departmental coverage and availability of additional grants for targeted RPOs. The existing citizen engagement mechanism will be further strengthened during the AF implementation. The AF will continue to monitor the level of satisfaction with agriculture services among targeted producers (disaggregated by gender). The parent Project initiated a web-based grievance redress mechanism in 2015, which has been further improved and now more systematic in registration and reporting.

Environmental Analysis

Explanation:

40. **The AF will trigger the same five environmental safeguard policies as the parent Project and is a Category B, as no large scale, significant and/or irreversible adverse impacts are expected.** As in the parent Project, the AF will mostly finance productive activities of small-scale farmers who belong to or will form a RPO. The AF is expected to generate overall positive impacts, given that: (i) all the subprojects (BPs) proposed for investment will be subject to environmental screening and management; and (ii) producers will be encouraged to employ environmentally sound and sustainable practices in their productive activities. The Project is a net carbon sink. The emissions reduction and carbon sequestration potential over a period of 20 years would be about 241,664 tCO₂ – equivalent. Project activities expected to contribute most to the net carbon sink include the replanting of coffee, cocoa, fruits trees and other perennial crops that might have the largest mitigation and carbon sequestration potential. See Annex 5 for further details on the Climate Co-Benefits and Net Carbon Balance Analysis.

41. **As the AF will be implemented in six new departments, the ESMF has been updated.** The

ESMF identifies the Project's potential socio-environmental impacts including for three new value chains (cocoa, allspice and rambutan³), describes the procedures and tools to be used for screening of potential impacts, and highlights applicable good practices to prevent negative and maximize positive impacts, as well as mitigation measures for any identified major adverse impact. The ESMF also includes a negative list of activities that could lead to degradation or conversion of natural habitats, forests, physical cultural resources or international waterways, and exclude them from financing. The ESMF was consulted between April and May 2016 and disclosed on the INVEST-H and WB's external websites on April 6, 2016 and further updated on INVEST-H website on January 26, 2017 and WB's external website on January 30, 2017.

42. **COMRURAL has a satisfactory record in adequately implementing applicable environmental safeguards management measures.** It also has a solid track record in supporting and supervising safeguard implementation by the RPOs and the technical service providers hired to support them. INVEST-H relies on a full time Environmental Specialist, and a part time specialist. COMRURAL promotes environmental good practices and value added that have become a trademark for a number of RPOs supported by the parent Project. This is particularly the case for the RPOs dedicated to specialty coffees that supply demanding export markets. These RPOs have engaged in innovative environmental management practices that optimize byproducts obtaining additional revenues. Innovative practices include organic pest management and organic fertilization. Coffee pulp and husks, materials that without proper management are contaminants, have been converted into inputs for manufacturing of organic compost and fertilizers to improve farm productivity as well as for commercialization and energy production.

43. **COMRURAL has faced two challenges with respect to environmental management.** These are: (i) slow processing by the Ministry of Environment of the required environmental licenses needed by subprojects as per national legislation; and (ii) delays in the operationalization of the Project's environmental indicator ("At least 70 percent of the BPs in the Project are implemented using good environmental practices, as proposed in the BP") that monitors implementation of a number of different types of management measures. The final methodology used in measuring the indicator was confirmed during the second half of 2015, and baseline data was retroactively collected as well as the first round of data. The indicator is now fully integrated in the MIS, and Project staff, participating technical consultants and the beneficiaries have been trained on its use. In September 2015, based on a sample of 22 RPOs and covering only two to three farm level visits per RPO, 83 percent of the BPs met this indicator. Regarding environmental licenses, the PIU works closely with the Ministry of Environment to ensure timely issuance of the required licenses.

Risk

Explanation:

44. **The overall risk of the Project is substantial given the change in implementing agency and the addition of six new departments.** Fiduciary risk has increased to substantial given the lack of experience in working with INVEST-H on fiduciary aspects. A fiduciary assessment has been undertaken and an action plan agreed to strengthen the financial management and procurement capacity of INVEST-H in implementing the AF. Moreover, fiduciary responsibility for the parent Project and the

³ An edible fruit, native to the Malay-Indonesian region, closely related to other edible tropical fruits, including the lychee.

AF will fall under different organizations for a period, thereby adding to the complexity of the implementation arrangements. However, roles and responsibilities of each agency have been clearly defined and delineated to facilitate smooth implementation. In addition, the inclusion of new departments, including Colón, raises risk given its history of land claims and conflicts. However, the AF will not be implemented in areas in these departments with identified land conflicts. A security review of the department of Colón was conducted, resulting in guidance and recommendations for engaging in Colón. Finally, the online climate and disaster risk tool concluded that risk is moderate given the occasional extreme weather events which may impact implementation of the Project.

V. World Bank Grievance Redress

45. **Communities and individuals who believe that they are adversely affected by a WB-supported project may submit complaints to existing Project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address Project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the WB's attention, and WB Management has been given an opportunity to respond. For information on how to submit complaints to the WB's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the WB Inspection Panel, please visit www.inspectionpanel.org.

**Annex 1: Results Framework and Monitoring and Evaluation
HONDURAS – Rural Competitiveness Project Additional Financing (P158086)**

Table 1.1 Proposed Changes to the Results Framework

Parent Project	Revised indicators under the AF
PDO Indicators	
10% increase in the value of gross sales of the rural producer organizations based on implementation of the business plan.	(Modified) Percentage increase in the value of gross sales of rural producer organizations based on implementation of business plans
At least 80% of the producers with approved business plans are satisfied with the Project.	(Modified and moved to Intermediate Results Indicators)
Private actors' investment as loans to producer organizations represent at least 50% of the amount invested as grant by the public sector.	(Modified and moved to Intermediate Results Indicators)
Rural producers participating in the project experience 20% increase in land and labor productivity.	(Modified) Percentage increase in land productivity by rural producers participating in the Project
	(New) Percentage of rural producer organizations working under an alliance approach 24 months after first disbursement
	(New) Percentage of rural producer organizations without a loan in arrears
	(New) Time taken to disburse funds requested by Government for an eligible emergency
Intermediate Results Indicators	
Component One: Support to Value Chains as Prioritized under Public Policy	
<i>Intermediate Result indicator 1.1:</i> 175 rural producer organizations have produced a profile that is approved to become a business plan.	(Modified) Number of rural producer organizations with a profile that is approved to become a business plan
<i>Intermediate Result indicator 1.2:</i> At least 15 technical service providers are approved to provide support to rural producer organizations.	(Modified) Number of technical service providers approved to provide support to rural producer organizations
Component Two: Productive Investments in Value Chains as Prioritized under Public Policy	
<i>Intermediate Result indicator 2.1:</i> At least 120 productive alliances under implementation.	(Modified) Number of productive alliances under implementation
<i>Intermediate Result indicator 2.2:</i> At least 5,280 rural producers benefitted from project financing.	(Modified) Direct project beneficiaries (number), of which female (percentage)
<i>Intermediate Result indicator 2.3:</i> 85% satisfaction among rural producer organizations regarding technical assistance from service providers.	(Deleted)
<i>Intermediate Result indicator 2.4:</i> 80% of the investments identified in the business plans are completed on schedule.	(Modified) Percentage of investments identified in the business plans completed on schedule
<i>Intermediate Result indicator 2.5:</i>	(Modified) Percentage of business plans financed by

At least 70% of the business plans in the project are implemented using good environmental practices, as proposed in the business plan.	the Project implemented using good environmental practices
<i>Intermediate Result indicator 2.6:</i> At least 70% of the business plans in the project successfully implement measures that target the youth and indigenous communities, when applicable, as identified in the business plan.	(Modified) Percentage of business plans financed by the Project that successfully implement measures targeting youth and indigenous communities, when applicable
	(New / Modified and replaced PDO indicator) Targeted clients satisfied with agricultural services (percentage), by gender
	(New / Modified and replaced PDO indicator) Private capital mobilized (USD)
Component Three: Project Management, Monitoring and Evaluation	
<i>Intermediate Result indicator 3.1:</i> MIS in place and in function.	(Modified) MIS fully functional and producing all required products
<i>Intermediate Result indicator 3.2:</i> Satisfactory financial audits.	(Unchanged) Satisfactory financial audits
<i>Intermediate Result indicator 3.3:</i> Timely preparation of semi-annual reports.	(Deleted)
<i>Intermediate Result indicator 3.4:</i> Compliance with Project Operational Manual, including Safeguard and Anti-Corruption policies.	(Deleted)
<i>Intermediate Result indicator 3.5:</i> Baseline data in the MIS is available for each approved business plan.	(Deleted)
Component Four: Cross-Cutting Institutional Strengthening	
	(New) National competitive policy designed
	(New) Establishment of a market intelligence unit
Component Five: Immediate Response Mechanism	
	(New) IRM established and ready to provide access to financial resources to Honduras in case of an eligible emergency

Table 1.2 Adjusted Results Framework

Project Name: Additional Financing for Rural Competitiveness Project (COMRURAL) (P158086)			
Team Leader:	Norman Bentley Piccioni	Requesting Unit:	LCC2C
		Created by:	Miki Terasawa on 08-Jan-2016
Product Line:	IDA	Responsible Unit:	GFA04
		Modified by:	Bernardita Ledesma on 31-Mar-2016
Country:	Honduras	Approval FY: 2017	
Region:	LATIN AMERICA AND CARIBBEAN	Lending Instrument:	Investment Project Financing
Parent Project ID:	P101209	Parent Project Name:	Honduras Rural Competitiveness Project (P101209)
Project Development Objectives			
Original Project Development Objective - Parent: The Project Development Objective of COMRURAL is to contribute to increased productivity and competitiveness among organized rural small-scale producers through their participation in productive alliances.			
Proposed Project Development Objective - Additional Financing (AF): The revised PDOs are to: (a) contribute to increased productivity and competitiveness of organized rural small-scale producers of Honduras through their participation in productive alliances; and (b) enable the Government to respond promptly and effectively to an eligible emergency.			
Results			
Core sector indicators are considered: Yes		Results reporting level: Project Level	

Project Development Objective Indicators							
Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current) ⁴	End Target
Revised	Percentage increase in the value of gross sales of rural producer organizations based on implementation of business plans	<input type="checkbox"/>	Percentage	Value	0.00	23.00	10.00
				Date	30-Jul-2008	31-Dec-2016	30-Nov-2020
				The actual value is an average of 27% in coffee and 11% in others (vegetables and apiculture).			
New	Percentage of rural producer organizations working under an alliance approach 24 months after first disbursement	<input type="checkbox"/>	Percentage	Value	0.00	100.0	80.00
				Date	30-Jul-2008	31-Dec-2016	30-Nov-2020
Revised	Percentage increase in land productivity by rural producers participating in the Project	<input type="checkbox"/>	Percentage	Value	0.00	24.00	20.00
				Date	30-Jul-2008	31-Dec-2016	30-Nov-2020
				The actual value is an average of 21% in coffee and 33% in the others.			
New	Percentage of rural producer organizations without a loan in arrears	<input type="checkbox"/>	Percentage	Value	0.00	98.80	95.00
				Date	30-Jul-2008	31-Dec-2016	30-Nov-2020
Marked for Deletion	Private actors invest at least 12.05 million USD as loans to producer organizations	<input type="checkbox"/>	Number	Value	0.00	12.50	12.50
				Date	30-Jul-2008	18-Mar-2015	30-Nov-2015
New	Time taken to disburse funds requested by the Government for an eligible emergency	<input type="checkbox"/>	Weeks	Value	0.00	0.00	4.00
				Date	31-Dec-2016	31-Dec-2016	30-Nov-2020

⁴ “Actual” refers to the status of the indicator under original credit while the target refers to the combined target for both the AF and the original credit. As a result, the end target for relative values may be lower than the “actual” target as the AF finances new commodities whose performance is unknown, and therefore, a conservative approach has been adopted. Values will be revised as the AF rolls out and investments become known.

Marked for Deletion	At least 80% of the producers with approved business plans are satisfied with the project	<input type="checkbox"/>	Percentage	Value	0.00	72.00	80.00
				Date	30-Jul-2008	31-Dec-2016	30-Nov-2015
Intermediate Results Indicators							
Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
Revised	Number of productive alliances under implementation	<input type="checkbox"/>	Number	Value	0.00	123	190
				Date	30-Jul-2008	31-Dec-2016	30-Nov-2020
Revised	Direct project beneficiaries (number), % of which female	<input checked="" type="checkbox"/>	Number Percentage	Value	0.00	7,200	10,780
					0%	28%	20%
				Date	30-Jul-2008	31-Dec-2016	30-Nov-2020
				Project beneficiaries refer to organized rural producers benefitting from Project financing.			
Revised	Number of rural producer organizations with a profile that is approved to become a business plan	<input type="checkbox"/>	Number	Value	0.00	159	235
				Date	30-Jul-2008	31-Dec-2016	30-Nov-2020
Revised	Number of technical service providers approved to provide support to rural producer organizations	<input type="checkbox"/>	Number	Value	0.00	51	55
				Date	30-Jul-2008	31-Dec-2016	30-Nov-2020
				While 51 service providers were approved, only 13 of those are active. The AF expects to be supported by 55 approved service providers.			

Revised	Percentage of investments identified in the business plans completed on schedule	<input type="checkbox"/>	Percentage	Value	0.00	70.00	80.00
				Date	30-Jul-2008	31-Dec-2016	30-Nov-2020
Revised	Percentage of business plans financed by the Project implemented using good environmental practices	<input type="checkbox"/>	Percentage	Value	0.00	83.40	70.00
				Date	30-Jul-2008	31-Dec-2016	30-Nov-2020
Revised	Percentage of business plans financed by the Project that successfully implement measures targeting youth and indigenous communities, when applicable	<input type="checkbox"/>	Percentage	Value	0.00	80.00	70.00
				Date	30-Jul-2008	31-Dec-2016	30-Nov-2020
New	Targeted clients satisfied with agricultural services <ul style="list-style-type: none"> • Targeted clients satisfied with agricultural services – male (percentage) • clients satisfied with agricultural services – female (percentage) 	<input checked="" type="checkbox"/>	Percentage	Value	0.00	72.00	80.00
						72.00	80.00
						72.00	80.00
				Date	30-Jul-2008	31-Dec-2016	30-Nov-2020
				Targeted clients are producers with approved business plans.			
New	Private capital mobilized	<input checked="" type="checkbox"/>	Amount (USD)	Value	0.00	13,921,845	24,350,000
				Date	30-Jul-2008	31-Dec-2016	30-Nov-2020
				Capital mobilized refers to capital invested by RPOs, including loans secured for the business plan and own resources.			

Revised	MIS fully functional and producing all required products	<input type="checkbox"/>	Text	Value	No	Yes	Yes
				Date	30-Jul-2008	31-Dec-2016	30-Nov-2020
No Change	Satisfactory financial audits	<input type="checkbox"/>	Text	Value	No	Yes	Yes
				Date	30-Jul-2008	31-Dec-2016	30-Nov-2020
New	National competitive policy designed	<input type="checkbox"/>	Yes/No	Value	No	No	Yes
				Date	31-Dec-2016	31-Dec-2016	30-Nov-2020
New	Establishment of a market intelligence unit	<input type="checkbox"/>	Yes/No	Value	No	No	Yes
				Date	31-Dec-2016	31-Dec-2016	30-Nov-2020
New	IRM established and ready to provide access to financial resources to Honduras in case of an eligible emergency	<input type="checkbox"/>	Yes/No	Value	No	No	Yes
				Date	31-Dec-2016	31-Dec-2016	30-Nov-2020
Marked for Deletion	Compliance with Project Operational Manual, including Safeguard and Anti-Corruption policies	<input type="checkbox"/>	Text	Value	No	Yes	Yes
				Date	30-Jul-2008	01-Sep-2015	30-Nov-2015
Marked for Deletion	Timely preparation of semi-annual reports	<input type="checkbox"/>	Text	Value	No	Yes	Yes
				Date	30-Jul-2008	21-Sep-2015	30-Nov-2015

Marked for Deletion	85% satisfaction among rural producer organizations regarding technical assistance from service providers	<input type="checkbox"/>	Percentage	Value	0.00	72.00	85.00
				Date	30-Jul-2008	18-Mar-2015	30-Jun-2015
Marked for Deletion	Baseline data in the MIS is available for each approved business plan	<input type="checkbox"/>	Text	Value	No	Yes	Yes
				Date	30-Jul-2008	18-Mar-2015	30-Nov-2015

Annex 2: Revised Project Description and Components
HONDURAS – Rural Competitiveness Project Additional Financing (P158086)

1. **The PDO would be revised to include the IRM in the event of an eligible emergency.** The revised objectives of the Project are to: (a) contribute to increased productivity and competitiveness of organized rural small-scale producers of Honduras through their participation in productive alliances; and (b) enable the Government to respond promptly and effectively to an eligible emergency.

2. **In addition to the original seven departments in the western part of the country, the AF will finance activities in six new departments located in northern, central, and southern Honduras.** The selection of the new intervention areas was carried out using the same selection criteria for the parent Project, with an additional parameter taking into account the country’s comparative and competitive advantage for specific high value crops, such as coffee and cocoa, and Honduras’ recognized market position. These criteria include: (i) productive potential; (ii) a value chain that can be complemented with strategic investments to achieve the Project’s goal; (iii) initiatives that can complement the investments supported through the Project; (iv) strong social capital; and (v) access to productive infrastructure, such as rural roads and electricity. In addition, three of these Departments, namely Choluteca, Francisco Morazán and El Paraíso, are part of what is known as the Dry Corridor, which is an area of high priority for the Government of Honduras. Table 2.1 below summarizes the application of selection criteria in the identification of the six new departments. Annex 6 shows a map with the original departments and the proposed new departments.

Table 2.1 Application of Selection Criteria for the Identification of New Departments

Criteria/ Departments	Productive potential		Value chain in place		Other initiatives		Presence of Rural Producers Organizations		Access to productive infrastructure	
	Coffee	Cocoa	Yes	No	Yes	No	Low	High	Low	High
<i>El Paraíso</i>	X		X		X			X		X
<i>Choluteca</i>			X		X		X			X
<i>Francisco Morazán</i>			X		X			X		X
<i>Atlántida</i>		X	X		X			X		X
<i>Colón</i>		X	X		X			X		X
<i>Cortés</i>		X	X		X			X		X

3. **The Department of Colón is one of the new Project areas under the AF.** Colón has some of the country’s most fertile lands in the Medio and Bajo Aguán regions. However, land tenure disputes have plagued the region since the Government-led Agrarian Reform program began in 1992. To attempt to address some of these issues, the Government has engaged with key stakeholders in developing an Action Plan to stimulate economic development in the Bajo Aguán valley. COMRURAL will provide an entry point to explore and determine the feasibility of establishing productive alliances with some of the RPOs in the area to increase income and improve social conditions. This approach has established a positive record in promoting better

relationships, transparency and confidence between communities, the Government and development partners.

4. **The Project will track progress against the PDO through the following indicators:**

- (a) Percentage increase in the value of gross sales of rural producer organizations based on implementation of business plans;
- (b) Percentage increase in land productivity by rural producers participating in the Project;
- (c) Percentage of rural producer organizations working under an alliance approach 24 months after first disbursement;
- (d) Percentage of rural producer organizations without a loan in arrears; and
- (e) Time taken to disburse funds requested by the Government for an eligible emergency.

5. **The AF would finance the original three Components, complementing resources from the private banking sectors.** Component 1 (Support to Value Chains as Prioritized under Public Policy) would finance outreach and promotional activities to identify RPOs, commercial partners and private financing entities, business proposals and BPs. It will also finance general studies to promote productive alliances, including inputs for an agriculture competitiveness strategy and product promotion. Component 2 (Productive Investments in Value Chains as Prioritized under Public Policy) is expected to finance 70 new BPs formulated under the first Component as follows: (i) 17 new BPs for consolidation and scale up of existing RPOs (repeater RPOs) in the original Project area; and (ii) 53 new BPs for new RPOs in the new Project area. Component 3 (Project Management, Monitoring & Evaluation) will finance Project administration, and monitoring and evaluation. AF investments are expected to benefit an additional 5,500 rural producers, and will promote the establishment of approximately 53 new RPOs in thirteen departments (including six new) as part of the Government's strategy to complement the investments under the ACS program.

6. **The AF will also finance two new Components.** Component 4 (Cross-cutting Institutional Strengthening) will finance strategic activities to strengthen the agricultural sector, and Component 5 (Immediate Response Mechanism) will allow for the Government's timely response in case of an eligible emergency. No funding will be allocated to Component 5 at this time. If an eligible emergency occurs, uncommitted funds in the Project would be reallocated to implement key activities by the appropriate agencies to respond to this emergency. An IRM Operational Manual used for other projects in Honduras with the same Component clearly outlines the triggers, eligible expenditures and procedures for tapping into the contingency funds.

7. **The AF will be implemented over three years.** It will serve as bridge financing while a nationwide rural competitiveness program based on the COMRURAL approach is under preparation. Table 2.2 presents the Project's expected coverage. Details by Components are outlined below.

Table 2.2 Project Coverage

	Current Credit (US\$19.4m, revised from original Board Approved of US\$30m)	Current Credit + AF (US\$44.4m)
Project area	7 departments: Comayagua, La Paz, Copán, Lempira, Intibucá, Ocotepeque, Santa Bárbara	13 departments including: <ul style="list-style-type: none"> • 7 original departments • 6 new departments: El Paraíso, Atlántida, Francisco Morazán, Colón, Cortés and Choluteca
Business Plans	89	End-of-Project target: 159 as follows : <ul style="list-style-type: none"> • 89 BPs under the parent Project • 17 new BPs to consolidate existing productive alliances • 53 new BPs in the new RPOs
Beneficiaries	Approx. 5,280	Approx. 10,780

8. **Component 1: Support to Value Chains as Prioritized under Public Policy** (US\$3.7 million IDA-4465-HN; US\$6.8 million AF; US\$10.5 million in total). This Component will support pre-investment activities for value chains as prioritized under public policy to: (i) identify, promote, create and consolidate productive alliances among RPOs, commercial partners and private financing entities; (ii) identify potential business opportunities for the productive alliances (i.e., a business proposal or *perfil de negocio*); and (iii) convert the business opportunities into BPs based on identified business opportunities. Such pre-investment activities include specifically the following:

- A. (1) Elaborating and implementing communication strategies to facilitate the formation of productive alliances; and (2) supporting the formation of productive alliances;
- B. (1) Providing technical support to RPOs to identify and develop viable business plans jointly with their respective commercial partners; and (2) providing training to RPOs to strengthen their entrepreneurial capacities to collect and manage commercial information, export, administrate (bookkeeping and accounting), and identify business opportunities and partners; and
- C. (1) Providing training and certifying technical service providers to acquire the knowledge and skills for the preparation of business profiles and business plans; (2) promoting business opportunities with RPOs; and (3) providing training and technical assistance to improve management and develop innovative credit mechanisms in the rural economy, particularly targeting rural financial institutions.

9. **Component 2: Productive Investments in Value Chains as Prioritized under Public Policy** (US\$11.8 million IDA-4465-HN; US\$12.5 million AF; US\$24.3 million in total). This Component will:

- A. Provide Productive Grants to RPOs for the implementation of selected Productive Subprojects prepared in the context of business plans for productive alliances between RPOs and at least one agro-processor, wholesaler or other commercial partner, to be carried out in the Project Area, and which is to be co-financed by: (i) a counterpart contribution in cash or in kind by the RPO; and (ii) co-financing by a PFI, all in the amounts and in accordance with the provisions set forth in the Operational Manual; and
- B. Establish and maintain a complementary guarantee fund to guarantee the loans made by the PFIs to RPOs for Productive Subprojects, in accordance with the provisions set forth in the Operational Manual.

10. Under this Component, grants will be provided to co-finance the implementation of approximately 70 competitively selected BPs formulated under Component 1. To be eligible, a BP must be financially feasible, support one or more productive alliances, and have secured up-front resources from the private financial sector (minimum of 30 percent) to support the BP. Grants would then be: (i) financed by the AF; (ii) implemented by RPOs; (iii) governed by agreements signed between the RPO and INVEST-H; and (iv) include fixed capital (e.g., plant and equipment, minor infrastructure), working capital and TA expenditures. New participant RPOs would be responsible for a minimum of 30 percent of the BP financing (and up to 60 percent for RPOs that have already been supported by the Project), resourced through commercial financial institutions and their own contributions (either in cash or in-kind). In the original Departments, the AF is expected to finance the same types of BPs. In the new departments, similar business proposals are likely to be financed with a stronger focus on the production and value addition of cocoa, allspice, and rambután. According to estimates, around 40 percent of the productive investments under the BPs will generate climate change co-benefits (adaptation or mitigation). When accounting private sector co-financing, climate co-benefits could be up to US\$7.5 million of the investments.

11. **Component 3: Project Management, Monitoring and Evaluation** (US\$3.9 million IDA-4465-HN; US\$3.8 million AF; US\$7.7 million in total). This Component will support Honduras with the incremental costs associated with Project implementation, administration and monitoring, including social and environmental management and the establishment of a participatory monitoring and evaluation system for the Project. This Component will also cover baseline information collection for new BPs, and finance an impact evaluation of the Project.

12. **Component 4: Cross-Cutting Institutional Strengthening** (US\$ 0.0 million IDA-4465-HN; US\$1.9 million AF; US\$1.9 million in total). This Component will finance strategic activities to strengthen the agricultural sector, including:

- A. carrying out of institutional strengthening activities to improve compliance with the regulatory framework governing agriculture value chains, supported by the Project through the review, and if applicable, the update, of said regulatory framework;
- B. promoting agricultural research and development through the identification of strategic non-Project investments;

- C. developing of a national strategy to establish a national branding system for different agricultural products, through, *inter alia*: (i) the provision of technical assistance and to, *inter alia*, relevant government agencies and national producers' associations for a better positioning of their products in international markets; and (ii) the carrying out of market studies and promotion campaigns;
- D. establishing a market intelligence unit, including the development of an information and communication technology platform to identify and disseminate business opportunities for local, regional and international markets;
- E. designing of a national competitiveness policy to contribute to the growth and competitiveness of the agricultural food sector;
- F. supporting the adaptation to climate change, through, *inter alia*: (i) the design and development of green businesses; and (ii) the provision of technical assistance and the carrying out of capacity building activities to generate market incentives for best business practices that would help reduce environmental footprint and the establishment of alliances with international buyers who recognize these efforts; and
- G. Carrying out of technical studies to acquire knowledge in key areas of competitiveness, including: (i) market studies and analyses of new potential value chains; and (ii) studies on the productive profile and social capital.

13. **Component 5: Immediate Response Mechanism (US\$0.0 million).** This Component will provide support to respond to an eligible emergency, and will enable the Government to pool uncommitted resources from different WB-financed projects in order for the Government to respond in a timely manner to eligible emergencies. An IRM Operational Manual provides clear and detailed guidance on the use of these funds.

14. **The design of the AF benefits from a number of lessons from implementation of the parent Project.** An interim Implementation Completion Report was prepared and a stakeholder workshop carried out during preparation of the AF. The following lessons were taken into account in the design of the AF:

- (a) **Organized smallholders are able to access bank finance when the conditions are suitable.** COMRURAL has strengthened farmer organizations and provided financial packages combining grants and loans as well as a public guarantee fund for bank credits. Through these interventions, the Project was able to demonstrate that private banks are interested in providing credits to smallholders when conditions are suitable. Further demonstrating the success of this model is the fact that various RPOs received subsequent loans to finance supplementary BPs. The presence of banks both knowledgeable of, and willing to operate under, rural conditions greatly helped.
- (b) **Sustainable BPs and banking sector confidence call for longer-term engagement.** The process of informing targeted farmer groups, cascading selection and preparation of BPs well as negotiations with buyers and private banks takes between two and four years. Depending on initial capacity, and to have real transformational impact, RPOs require TA for at least three years to be fully strengthened and operational. This also takes into consideration the

involvement of financial intermediaries that need time to build trust within the farmer organizations.

- (c) **Producer organizations benefit from transparent procurement procedures.** Many RPOs were able to save money thanks to the competitive procurement processes required by the Project. They have adopted those procedures for RPO procurement with own funds.
- (d) **Data collection and recordkeeping by RPOs and their members should be part of the subproject grant agreements.** Record keeping and data management are important in any business endeavor. They help beneficiaries maintain sound business practices, and provide valuable, reliable, and relevant information to the businesses to help them make better decision. As such, subproject grant agreements should require record keeping.
- (e) **Institutional and financial capacities differ among value chains.** COMRURAL continues to support high value crops and other crops through provision of credit and strengthening of market linkages and extension services as a part of the Government's flagship program. The various value chains respond differently to the Project, given their organizational and institutional strengths and weaknesses. Value chains, which are better organized and have stronger RPOs, such as the coffee value chain, show quicker results and disbursements. Nevertheless, other value chains, such as vegetables, promote inclusiveness of marginal farmers and indigenous producers, and contribute to poverty alleviation, by providing opportunities for growth among graduating ACS-supported farmers.
- (f) **Having a single implementing agency, such as INVEST-H, facilitates Project implementation.** While SEFIN complemented SAG fiduciary capacity, the division between technical and financial aspects in two separate ministries substantially delayed Project implementation. SAG had no control over the flow of funds to RPOs, which caused a delay in disbursement and subsequently dissatisfaction among some RPOs. Based on this experience, the AF would be implemented by a single agency (INVEST-H), with continuity in technical and fiduciary staffing transferred from SAG and SEFIN.

Annex 3: Changes in Implementation Arrangements
HONDURAS – Rural Competitiveness Project Additional Financing (P158086)

1. **The AF will be implemented by INVEST-H, under the oversight of the General Coordinator of the Presidency.** The INVEST-H Board of Directors oversees all ACS projects implemented and is responsible for overseeing the management of INVEST-H, including appointing the INVEST-H manager, approving annual plans and budgets, and contracting financial audits. Within INVEST-H, the Rural Development Department is responsible for coordinating ACS investments, including the AF. The Department is headed by a director and staffed by a team of technical and fiduciary specialists, including staff from the original PIU of COMRURAL. The Project Administration Unit in SEFIN will continue to be responsible for the fiduciary functions of the parent Project until the closing of the original credit. INVEST-H will be responsible for the fiduciary aspects of the AF once it is effective. Other than a Central Coordination Unit, INVEST-H will maintain and strengthen the current three Regional Operating Units and establish a new one in the Department of Choluteca for the AF.

2. **Fiduciary risk is assessed as Substantial.** This rating takes into consideration Project design, experience with implementation of original credit, potential challenges with a new implementing agency and the coexistence of parallel fiduciary agencies during the transition process, as well as the country's Procurement Risk. Key risk factors are related to: (i) **Project design** which requires the disbursement of funds to RPOs, and requires the RPOs to undertake certain fiduciary tasks despite their limited capacity; (ii) **Funds flow** for the subprojects which are complex as they require RPOs to: (a) open, maintain, and report on two bank accounts; and (b) receive 100 percent of the Project's contribution at once although funds will be spent over two to three years; (iii) **Operational arrangements** which need to be in place to record, control, report and monitor the use of the funds in order to ensure the effective and timely implementation of subprojects by RPOs (some of those required procedures are still being adjusted and streamlined to operate within INVEST-H's structure and are expected to be completed by the first six months of implementation); and iv) **Multiple information systems**, as many different systems including Excel pose several challenges to ensure the timely availability of reliable information required to monitor Project implementation.

3. **INVEST-H is a well-established entity with significant experience with externally-financed operations, although experience and familiarity with WB requirements is still limited.** A FM capacity assessment of INVEST-H was carried out and strengthening measures were agreed upon. Processes, procedures and other operational arrangements for the original credit will be used for the implementation of the AF, taking into account the adjustments required to adapt to the new entity's institutional set-up and internal governance structure as well as strengthening measures to ensure a smooth and timely implementation of Project activities (including subproject execution by RPOs). To better respond to Project needs, financial management teams are being strengthened at both central and regional levels, and processes are being modified as follows: (i) funds will be transferred from the RPO's primary to secondary bank account based on financial programming for a given period of time (e.g. semi-annual); (ii) RPOs will be required to report on activities implemented and expenditures made on a semi-annual basis using a simplified format included in the Operational Manual; (iii) the RPOs' expenditures will be reviewed by INVEST-H's technical and fiduciary staff and will be verified in-situ; (iv) the financial module of the MIS will be used for the recording, control and

monitoring of disbursements under the subprojects; (v) Project interim financial reports and annual financial statements will include all sources of financing and a subproject report. These arrangements will be reviewed within the first 6 to 12 months of execution in order to ensure that these are operating as intended, and adjustments will be made if needed.

4. **Based on the FM assessment and agreements reached for the strengthening of certain aspects, the proposed FM arrangements can be considered acceptable to the WB.** In particular, the team: (i) agreed on the final format and content of the final accounting (*liquidación*) prepared by the RPO; (ii) agreed on the format and content of the interim financial report; and (iii) received detailed procedures for the approval of withdrawals from the primary to secondary bank accounts and for the review and approval of the “*liquidaciones*”. In addition, the WB has received an updated FM section of the Operational Manual reflecting the arrangements agreed and draft audit. The team also agreed on the chart of accounts to be used in the government financial management system for the recording of Project transactions. Within three months from effectiveness, INVEST-H will need to complete the selection and contracting of the required additional FM staff, including (i) a dedicated FM Specialist (central office) and (ii) two dedicated FM Officer (rural support). It was also agreed that when the Regional Office of Choluteca is opened, an additional FM Officer (part-time) will be hired to carry out the increased workload.

5. **A procurement capacity assessment of INVEST-H was also carried out and identified a series of mitigation measures to ensure satisfactory performance of the procurement functions.** The procurement team of INVEST-H, has experience and knowledge of procurement processes of other multilateral organizations, however its experience with WB Guidelines is limited. Moreover, the capacity of the procurement team will be exceeded given that currently there are only four specialists and they are supporting six projects. To manage these risks, the procurement team members of the parent Project and procurement staff from INVEST-H participated in the WBs Regional Procurement training held in November 2016 and additional staff to support the AF will be hired. Additionally, procedures related to the procurement of subprojects will be enhanced and updated to include lessons learned to ensure more effective coordination in planning activities.

6. **In order to carry out the required procurement functions for the AF, INVEST-H will hire two Senior Procurement Specialist and two additional Procurement Specialists.** One of the Senior Procurement Specialists will be in charge of all centralized procurement needed for the implementation of the AF. The other Senior Procurement Specialist will support the Procurement Director of INVEST-H in reviewing all procurement documents/approvals requested in relation to procurements for subprojects (procurement plans, bundling of procurement processes, bidding documents, evaluation reports, advertisements, among other documents). The main tasks of the two Procurement Specialists will be to train and support the RPOs in their procurement processes, under the coordination and supervision of the Senior Procurement Specialist. This will mitigate the risk of noncompliance (due to lack of knowledge of public procurement procedures) of the RPOs with the Procurement Guidance for subprojects approved by the WB. The full procurement team for the parent Project and AF will be two Senior Procurement Specialists and four Procurement Specialists. To further ensure that procurement under the subprojects are conducted in a transparent, fair and effective manner, INVEST-H updated the Project Operational Manual including the Procurement Guidance for

subprojects to include lessons learned, adjustments to the new Project implementation structure and current market conditions. The update of the Procurement Guidance for subprojects includes detailed activities required for each procurement method and thresholds for review by INVEST-H, and by the WB for those processes where the budget is greater than the maximum amounts for post review for the Project. Moreover, standard documents for procurement of subprojects were updated to ensure that they are adjusted to local market conditions and the needs of RPOs (bidding and contractual terms). Procurement will be carried out in accordance with the “World Bank Procurement Regulations for Investment Project Financing Borrowers” (July 2016) (“Procurement Regulations”). A PPSD, prepared by the Borrower, describes how procurement in this operation will support the PDOs and deliver value for money using a risk-based approach. The PPSD provides adequate supporting market analysis for the selection methods detailed in the Procurement Plan.

7. **The Procurement Plan for the first 18 months was prepared in accordance with the results of the PPSD and agreed upon with the WB as part of the negotiations.** In accordance with paragraph 5.9 of the Procurement Regulations, the WB’s Systematic Tracking of Exchanges in Procurement system will be used to prepare, clear and update Procurement Plans and conduct all procurement transactions for the Project. INVEST-H has already been trained on how to use the system. Standard Procurement Documents will be used for all contracts subject to international competitive procurement and those contracts as specified in the Procurement Plan tables in the Systematic Tracking of Exchanges in Procurement.

8. **Frequency of Procurement Supervision.** In addition to prior review supervision to be carried out by the WB, the capacity assessment of the implementing agency recommends annual supervision missions to visit the field to carry out post review of 1:5 procurement actions.

9. **The AF will use both centralized and decentralized procurement.** Even though this model was used under the parent Project, intensive supervision and training of existing and new beneficiaries by INVEST-H will be required. Since parallel agencies will be performing procurement activities, close supervision is needed to effectively manage such processes.

10. **The overall risk of the AF is assessed as substantial (Table 3.1)** due to the added complexity of having two different agencies being responsible for the fiduciary aspects of the AF and the parent Project. The responsibility for the fiduciary aspects of the AF rests with INVEST-H which has minimal experience in working with WB-financed projects while the fiduciary responsibility for the parent Project remains with the Project Administration Unit in SEFIN. The Operational Manual will be revised to clearly define and delineate the responsibilities of each agency. The expansion to new departments including Colón adds to the risk given recent turmoil in the department which has had a history of land issues and conflicts. Public consultations were conducted in the new departments to raise awareness about the Project and a security review of Colón was conducted to provide guidance to the task team in their engagement in the area.

Table 3.1 AF Risk Ratings

Risk Categories	Risk Rating
Political and governance	Substantial
Macroeconomic	Moderate
Sector strategies and policies	Moderate
Technical design of project or program	Low
Institutional capacity for implementation and sustainability	Moderate
Fiduciary	Substantial
Environmental and social	Moderate
Stakeholders	Moderate
Overall	Substantial

Annex 4: Economic and Financial Analysis
HONDURAS – Rural Competitiveness Project Additional Financing (P158086)

I. Development Impact of the Project

1. **The objective of the AF – as in the original Project - is to contribute to increased productivity and competitiveness among organized rural small-scale producers through their participation in productive alliances.** Under the Project’s approach, four partners - RPO, a buyer, a provider of TA, and a private financial institution - enter jointly into a trade agreement (alliance) to improve production, adding value and sales on a benefit-sharing basis for all parties.

2. **As of December 2016, the Project has financed 89 BPs for 123 RPOs who entered into productive alliances between financial, commercial and TA partners, generating productive investments of around US\$26.7 million in rural areas.** Of this amount, 52 percent was financed by Project grants, 33 percent by private financial institutions (at market conditions), and 15 percent by producers’ counterpart funding. These alliances directly benefitted 7,200 rural producers, 49 percent of which are indigenous from the Lenca and Maya-Chorti ethnic groups. These producers are estimated to have increased their income by more than 23 percent thanks to increases in the value of gross sales, labor productivity, processing capacity, and better market prices, particularly for specialty coffee.

II. Rationale for Public Sector Provision/Financing

3. **Honduras’ endowment of water, forests, and soil is critical for much of the country’s economic activity, but the country is highly vulnerable to natural shocks and natural resource mismanagement.** Poverty and natural resource depletion are closely linked. About half of the population of Honduras is rural, 80 percent of which live in environmentally unstable hillside areas practicing subsistence agriculture, affecting the sustainability of the natural resources. Deteriorating natural resources is failing to provide a minimal livelihood for the poor. Consequently, rural poverty accounts for 56 percent of all poverty and 67 percent of extreme poverty. Past experience shows that successful poverty reduction in rural areas is linked to the ability of the poor to add value to their productive activities together with diversifying their livelihoods, while conserving the environment. There are many sites where farming is limited due to dry weather and/or unstable eroded soil condition, so poverty reduction requires associative ways for off-farm value chain development. This leads to higher levels of farm gate prices and income, and reduced vulnerability to shocks due to weather and/or market conditions. These opportunities are usually more accessible through rural RPOs. Hence, the use of additional public funds is justified.

III. Value Added of WB's Support

4. **The WB is supporting the development of agricultural value chains and productivity-enhancing activities for rural businesses while improving the country’s natural resource management.** COMRURAL contributes to the WB’s twin goals of eradicating extreme poverty and promoting shared prosperity. It also supports the WB’s Green Growth agenda, by seeking environmental sustainability across its activities. The Government and the WB have been working closely to develop the analytical and operational building blocks to

support public efforts to reduce poverty sustainably by including young farmers and women as active actors of the development agenda.

IV. Financial Analysis

5. **To quantify the benefits of AF, a financial analysis was carried out using the results achieved under COMRURAL.** Five representative cases among the financed RPO alliances were assessed using their actual results under the current market situation. The assumptions and estimates were made based on the on-going activities and the real changes observed in their businesses after 1 to 3 years of implementation. The cost-benefit analysis considered the pre-project situation as well as the current and the expected benefits after the investments mature. The main sources of quantifiable benefits stem from: (i) the collaboration deriving from the implementation of BPs with the active participation of the RPOs and their commercial partners; (ii) increased integration in value chains adding value to their produce; (iii) adoption of improved crop production technologies resulting from farmers' field school approaches; and (iv) increased productivity in the most commonly demanding subsectors (coffee, vegetables and milk production systems) due to improved production and post-harvest handling technologies together with enhanced management support through the TA included in the Project supported BPs.

6. **The BPs financed under COMRURAL focused on a number of different value chains.** These included specialty coffees (62 percent of the grants), vegetables (17 percent), livestock and milk products (5 percent), honey production (5 percent), basic grains (5 percent), and other sectors (6 percent). A representative sample of five alliances were selected for this analysis including three specialty coffee alliance BPs (RAOS, COCASMIL and COCAFENOL), one vegetable alliance BP involving 14 RPOs (ECARAI), and one livestock and milk alliance BP (APROLAC). For these five cases, COMRURAL invested US\$3.5 million, 15 percent of Component 2 resources. In addition, cocoa and a cashew trees alliance cases were also assessed based on a real proposal prepared by one of the RPO for the development of a BP benefiting about 158 cocoa producers in the first case; and from a hypothetical case in the second one, based on real field situations.

7. **Crop, activity and farm budgets for each of the seven BPs show the expected financial benefits by comparing the situation before and after the Project.** Changes result from the development of the new facilities and marketing linkages under the strategic alliances with the private sector (financial institutions, TA providers and buyers). Production and income increases are derived from on-farm and off-farm investments and enhanced practices, including improved production technologies and post-harvest handling, together with new processing and marketing procedures linked to the buyers' requirements. Typical size of farmed area within the household productive systems allowed estimating the expected farmers' net family income increases assessing the main Project's financial impact. The TA and investments improve farm gate prices, productivity and farmers' incomes, pulling families out of poverty.

8. **As the BPs are implemented, farm gate prices are improved and together with targeted TA, yields increase as well as the net revenues generated by their cropping activities compared with what is obtained without the Project interventions.** Table 4.1 shows the net income obtained per *manzana* (mz = 0.7 hectare) by typical beneficiaries from their crops and/or milking cows. Yields are expected to grow between 12 and 100 percent:

potatoes 66 percent, milk 45 percent, and cocoa and cashew nuts around 100 percent. Together with the effects of price improvements due to quality enhancement, the net margin per mz of coffee is expected to grow an average of 50 percent, income before labor costs in potatoes is expected to increase by four times, net revenues from milking cows is expected to increase by 44 percent, and net income from cocoa trees would be more than double. In the case of cashew growers, income before labor costs would increase from Lps 3,400 to Lps 28,900, mainly due to the recovery of the cashew apple (cashew fruit) (the fleshy part attached to the cashew nut which is not being used due to the lack of cold storage facilities) which would be developed under the RPO's BPs.

Table 4.1: Financial Indicators and Results for Major Crops and Activities

Crop	Average Yields (qq/ha - liters/cow)		Gross Revenue (Lps/ha)		Input & Labor Costs (Lps/ha)		Net Income after family labor (Lps)	
	Without	With	Without	With	Without	With	Without	With
RAOS Organic Coffee (humid)	44	52	48,400	70,200	28,060	36,130	20,340	34,070
RAOS Conventional Coffee (humid)	60	70	54,000	63,000	34,300	41,100	19,700	21,900
COCASMIL Coffee (humid)	40	60	36,000	54,000	33,240	38,300	2,760	15,700
COCAFELOL Rehabilitated Coffee		45	-	93,000	-	63,200	-	29,800
COCAFELOL Coffee (humid)	48	60	74,400	93,000	63,490	72,300	10,910	20,700
ECARAI Potatoes	240	400	108,000	248,000	101,600	152,220	6,400	95,780
APROLAC Cows (liters/cow)	1,500	2,175	13,200	19,140	10,500	15,225	2,700	3,915
Cacao Existing Plantations (Baba)	1,650	3,000	14,175	26,100	11,500	20,000	2,675	6,100
Cacao New Plantations (Baba)	-	3,990	-	34,425	-	24,400	-	10,025
Cashew Existing Plantation (nuts)	720	1,500	4,320	9,000	6,922	18,357	-2,602	16,893
(cashew apple)	-	7,500	-	26,250				

9. In order to measure the financial impact of the Project on farmers, Table 4.2 shows the expected changes in income of typical farmers in each of the seven analyzed cases. As can be seen from the Table, as the alliances are developed and access to the markets facilitated through value addition processes, farmers significantly improve their gross and net incomes.

Table 4.2: Project Impact on Beneficiaries Incomes and on Return per family-day of labor

Typical Farm from:	Value of Production		Family Benefits		Returns per family-day labor	
	Before	After	Before	After	Before	After
RAOS Coffee Grower Organic	156.4	227.2	131.2	181.5	423	539
RAOS Coffee Grower Convent.	173.2	205.6	118.1	138.7	445	445
COCASMIL Coffee Grower	100.3	150.0	61.6	106.1	255	377
COCAFELOL Coffee Grower	282.0	443.1	138.4	197.6	406	537
ECARAI Vegetable Grower	41.0	89.9	13.5	45.7	193	510
APROLAC Milk Farmer	191.2	277.4	32.6	47.2	837	1,086
CACAO grower	29.7	68.7	24.9	52.1	233	281
Cashew Grower	21.5	89.4	17.8	69.6	141	380

10. Table 4.3 shows the average financial impact expected from the seven analyzed RPOs. Results indicate that the AF could be instrumental for increasing sales through the organizations significantly. In the case of the coffee RPOs, sales increased by 44 percent (RAOS) and more than doubled in the other two cases (COCASMIL and COCAFELOL); in the case of ECARAI, the vegetable sales of the RPOs tripled; and for dairy and the cashew RPOs, the value of sales increased five-fold. Financial rates of return for the RPOs are all positive,

ranging from 9.6 percent to 51.9 percent. Detailed budgets and results for the main crops and activities involving the average farmer and the RPOs are included in the Project Files.⁵

Table 4.3: Financial Indicators and Results for RPO Activities

RPOs Concept	Value Sales (Lp '000)	Investment (Lp '000)	Operating Costs (Lp '000)	Net Revenue after dept svc (Lp '000)	Internal Rate of Return (%) & NPV (Lp '000)
Coffee RAOS Before	89,505	16,407	88,576	929	
After year 5	125,703		120,260	4,288	46.8%
year 10	128,850		123,015	6,165	18,094
Coffee COCASMIL Before	9,664	7,125	9,570	94	
After year 5	26,884		24,612	1,615	51.9%
year 10	28,380		25,920	2,460	8,416
Coffee COCAFELOL Before	86,240	13,106	85,110	1,130	
After year 5	212,611		209,439	566	9.6%
year 10	223,600		220,250	3,350	-2,250
Vegetables ECARAI Before	15,000	31,132	14,925	75	
After year 5	53,000		48,850	-206	31.9%
year 10	53,000		48,850	3,616	9,338
Dairy APROLAC Before	5,959	12,262	5,779	180	
After year 5	30,730		28,100	1,706	21.2%
year 10	30,730		28,100	2,051	4,821
Cacao Cooperative Before	-	11,835	-	-	
After year 5	15,174		13,620	378	24.6%
year 10	15,174		13,620	1,574	3,331
Cashew Tree Growers Coop Before	8,800	15,990	6,925	1,875	
After year 5	49,500		45,320	2,510	15.4%
Year 10	49,500		45,320	4,180	2,124

11. **Farm models show the *without* and *with Project* scenarios including the volume and value of production and financial results before and after five years of implementation of the respective BP.** The value of sales at the typical farm, on-farm investments, operational costs, and resulting net family income, as well as returns to the family day of labor are summarized in Table 4.4. Yields and net incomes would improve significantly while labor use is increased, resulting in an enlarged use of idle family labor. Beneficiaries' net farm revenues are expected to increase by about 38 percent in the case of RAOS, 43-45 percent for COCAFELOL and APROLAC members, 72 percent for COCASMIL farmers, and to up to 2.5 to 4 times above their previous levels in the case of ECARAI, the cashew and cocoa RPO members. Increases in farm benefits are the combined effect of increasing prices as a result of value chain development, increasing yields, and labor productivity gains. As the activity becomes more attractive in terms of economic results, farmers tend to invest time and resources to improve their living conditions.

⁵ See COMR_AF_Ene_2017.xls in the Project Files: Tables 1 to 10 covers all crop budgets; Tables 11 to 18, all farm models; Tables 19 to 25, all RPO activity budgets; Tables 26 to 32, the seven BPs including the required grants and loans with the repayment budget; and Table 33, the overall Project economic results budget.

Table 4.4: Project Financial Impact at the level of typical benefited RPO areas

Farm Model Indicators		RAOS Farmer	COCASMIL Farmer	COCAFELOL Farmer	ECARAI Farmer	APROLA C Farmer	Cocoa Farmer	Cashew Farm
Labor (day/yr requirements)	Before	313	241	580	70	21	106	126
	After	368	288	848	90	30	185	183
Farm gross income ('000 Lps/year)	Before	156.4	100.2	282.0	41.0	191.2	29.7	21.5
	After	227.2	150.0	443.1	89.9	277.4	68.7	89.4
Farm net income ('000 Lps/year)	Before	131.2	61.6	138.4	13.5	32.6	24.9	17.8
	After	181.5	106.1	197.6	45.7	47.2	52.1	69.6
Return/day family labor (Lps)	Before	423	241	406	193	837	233	141
	After	539	288	537	510	1,086	281	380

V. Economic Analysis

12. **The assessment was expanded following the expected distribution of the demand from the RPOs.** Since the Project approach is demand driven, it is not possible to know in advance the combination of BPs to be supported. For the economic assessment, it was assumed that about 40 percent of the funds would be used for coffee RPOs' BPs, 15 percent for livestock and dairy RPOs' BPs, 15 percent for cocoa RPOs, 15 percent for cashew farmer associations, and 15 percent for fruits and vegetables RPOs' BPs. It was assumed that 80 percent of the supported BPs would respond as expected, and 20 percent would fail to comply with expectations. All support activities and delivery costs related to Components 1 and 3 were considered for the analysis.

13. For the economic analysis, the cost of labor was adjusted with a conversion factor of 0.75 considering the opportunity cost of labor and the high levels of underutilization of family labor in rural areas. No other adjustment was made to market prices since most prices in Honduras already reflect the opportunity costs of goods and services. The aggregation of the representative farm models adopting improved production systems including enhanced practices were added to the RPOs' BP activities for estimating the overall economic results from the Honduras economy perspective. The AF US\$35.43 million investments (including the US\$25 million IDA Credit) would have an economic rate of return of about 27.2 percent and a Net Present Value of Lps 776,631,000 (with 12 percent as discount rate) equivalent to approximately US\$33 million.

VI. Sensitivity Analysis

14. **Based on results of the analysis, the AF is economically and financially feasible.** Taking into account major risks related to Project performance, three situations were tested as follows: (i) Project investment costs escalating by 20 percent over the assumed amounts; (ii) prices of all agricultural products reduced by 20 percent; and (iii) both adverse situations occurring simultaneously. The economic rate of return was reduced to 22.4 percent in the first case; to 12.3 percent in the second; and to 9.8 percent in the third case. Thus, the Project is considered financially feasible from the perspective of farmers and their RPOs, as well as economically justified from the country's point of view. The analysis confirms the Project's robustness given the calculated economic rate of return. As a result, the AF's efficiency is expected to be substantial.

**Annex 5: Climate Co-Benefits and Net Carbon Balance Analysis
HONDURAS – Rural Competitiveness Project Additional Financing (P158086)**

1. **Climate Co-Benefits.** There are a number of climate co-benefits under Components 1 and 2. Since the subprojects under Component 2 are demand-driven, it is not possible to assess precisely climate co-benefits prior to approval. However, considering the types of investments likely to interest subproject beneficiaries, 60 percent of Component 2 financing is expected to generate climate co-benefits (related to adaptation and mitigation). TA provided under Component 1 would result in the development of plans, which when implemented under Component 2 would have climate co-benefits estimated at 15 percent of Component financing. Overall climate co-benefits are estimated at US\$8.52 million (34 percent) of the total Project amount. Table 5.1 shows the different activities contributing to adaptation and mitigation.

Table 5.1: AF activities contributing to climate adaptation and mitigation

Activities with adaptation co-benefits	Activities with mitigation co-benefits
Promote on-farm innovative management practices and crop diversification to increase resilience	Increase the capacity of carbon sinks by (i) strengthening on-farm management, such as crop residue and use of fertilizers; (ii) strengthening soil management; (iii) restoration of degraded land by the afforestation through perennial and high value crops, such as coffee, cacao, fruit trees, litchi, and cashew; (iv) use of drought-tolerant crop varieties; and (v) change of arable land dedicated to annual crop to perennial/high value crops.
Promote value addition infrastructure to adopt and disseminate new technologies to improve energy efficiency, water management, and reduce bio-fuel usage/dependence.	Promote the reduction of energy usage by implementing green energy source machinery, equipment, small-scale renewable energy (biogas, solar panels) and infrastructure for storage and processing centers (including water recycling).
Adopt and disseminate sustainable practices to increase resilience. Promote the linkages and resilience opportunities between value chains.	Strengthen the feeding strategies as well as grassland and manure management for livestock. Manure management will include activities to promote the substitution of synthetic fertilizers through the storage, processing and application of manure as organic fertilizer.

2. **Greenhouse Gas Emissions Analysis.** Similar to other small developing economies, Honduras’ contributions to global carbon dioxide is minimal, less than 0.1 percent of the world total. Honduras has committed to reducing GHG emissions in the agriculture, energy and forestry sectors by 15 percent, and to reforest and/or afforest 1 million hectares of land by 2030. Emissions in the agriculture sector tend to be driven by enteric fermentation, agricultural soil degradation and manure management. More than half of the energy production relies on fossil fuels, and forest loss and degradation has increased as a result of prolonged droughts and severe fires. Honduras has realized the need to consider adaptation and mitigation action in its national policies. In recent years, the Government has developed the framework for these policies, such as the Climate Change National Strategy and Law and the Agroforestry Law for Rural Development, putting particular emphasis on Climate Change as well as a regulatory framework to boost renewable energy investments.

3. **Net Carbon Balance. The Ex-Ante Carbon Balance Tool was used to calculate the Net Carbon Balance for the Project.** The tool provides ex-ante estimations of the impact of agriculture projects on GHG emissions and carbon sequestration, indicating the effects of project activities on the carbon balance. For example, a project that supports activities that increase GHG emissions (such as expanded fertilizer use) could, through the adoption of improved land management practices, contribute to soil carbon sequestration, therefore, creating a carbon sink, with positive mitigation effects. During Project preparation, the Ex-Ante Carbon Balance Tool was applied, assuming that the Project implementation period is 3.5 years and no changes in land use practices are expected in a “Without Project Scenario”, while minor variations are expected during Project implementation.

4. **Given that the Project has limited scope (supporting only 70 subprojects), it is not expected to introduce significant changes in current land use or production intensity patterns prevailing in the country.** However, the Project will promote innovative adaptation and mitigation practices that may be replicated by other projects, leading to a greater and sustainable impact in the long term. Based on implementation of the parent Project, the GHG analysis focused on some of the identified value chains and relied on the evaluator’s estimates as to how many beneficiaries and hectares would be affected and adopt recommended practices. First, the coffee, cacao, and cashews subsectors are expected to respond as their production is export oriented, offering reasonable positive expectations and economic results. Their business results could be significantly improved by inducing certain post-harvest facilities for better handling and processing stages of the value chain in accordance with buyers’ preferences. Second, vegetables are a high value crop with a strong demand in the local and regional market (El Salvador and Guatemala). Third, livestock is another sector with an important value chain for the local economy that is also likely to respond actively to Project incentives.

5. **Based on the above, the Project is expected to have a positive carbon balance, thus can be considered a net carbon sink.** The emissions reduction and carbon sequestration potential over a period of 20 years would be about 241,664 tCO₂ – equivalent. Project activities expected to contribute most to the net carbon sink include the replanting of coffee, cocoa, fruits trees and other perennial crops that might have the largest mitigation and carbon sequestration potential.

Annex 6: Map

HONDURAS – Rural Competitiveness Project Additional Financing (P158086)

