

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**HONDURAS**

**COMPREHENSIVE RURAL DEVELOPMENT AND PRODUCTIVITY PROJECT**

**(HO-L1201 AND HO-L1211)**

**LOAN PROPOSAL**

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<b>REQUIRED</b>
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2. <a href="#">Monitoring and evaluation plan</a>
3. <a href="#">Environmental and social management report</a>
4. <a href="#">Procurement plan</a>
<b>OPTIONAL</b>
1. <a href="#">Project economic analysis</a>
2. <a href="#">Value chain analysis</a>
3. <a href="#">Project Operating Regulations</a>
4. <a href="#">Demand analysis</a>
5. <a href="#">Sustainable productive development</a>
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11. <a href="#">Cluster descriptions</a>
12. <a href="#">Partner programs for the Dry Corridor and institutional framework</a>
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14. <a href="#">Operation HO-L1201 – safeguard policy filter</a>
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## ABBREVIATIONS

ACS	Alianza para el Corredor Seco de Honduras [Alliance for the Dry Corridor of Honduras]
CBA	Cost/benefit analysis
DCH	Dry Corridor of Honduras
DICTA	Dirección de Ciencia y Tecnología Agropecuaria [Agricultural Science and Technology Agency]
ESMR	Environmental and social management report
FAO	Food and Agriculture Organization
FONPRODE	Fondo para la Promoción del Desarrollo [Development Promotion Fund]
GCL	Global credit loan
ICB	International competitive bidding
ICTs	Information and communication technologies
IDB	Inter-American Development Bank
IFMS	Integrated financial management system
INVEST-Honduras	Inversión Estratégica de Honduras
MEP	Monitoring and evaluation plan
MSMEs	Micro, small, and medium-sized enterprises
NCB	National competitive bidding
OC	Ordinary Capital
OECD	Organization for Economic Cooperation and Development
ONCAE	Oficina Normativa de Contratación y Adquisiciones del Estado [Public Procurement Regulatory Office]
PCR	Project completion report
q/Mz	Quintal per manzana
QCBS	Quality- and cost-based selection
QLI	Quality of life index
SCGG	Secretaría de Coordinación General de Gobierno [Secretariat of General Coordination of the Government of Honduras]
SIAFI	Sistema de Administración Financiera Integrada [Integrated Financial Management System]
SIL	Specific investment loan
USAID	United States Agency for International Development

**PROJECT SUMMARY**

**HONDURAS**

**COMPREHENSIVE RURAL DEVELOPMENT AND PRODUCTIVITY PROJECT**  
**(HO-L1201 and HO-L1211)**

Financial Terms and Conditions						
<b>Borrower:</b> Republic of Honduras				<b>Amortization period:</b>	Regular OC <sup>(a)</sup> 25 years	Concessional OC 40 years
				<b>Disbursement period:</b>	5 years	
<b>Executing agency:</b> Inversión Estratégica de Honduras (INVEST-Honduras)				<b>Grace period:</b>	5.5 years <sup>(b)</sup>	40 years
				<b>Interest rate:</b>	LIBOR-based	0.25%
Source	Amount (US\$ millions)			%		
	HO-L1201 (GCL)	HO-L1211 (SIL)	Total			
<b>IDB (Regular OC):</b>	7.385	11.865	19.25	21.4	<b>Credit fee:</b>	(c)
<b>IDB (Concessional OC):</b>	13.715	22.035	35.75	39.8	<b>Inspection and supervision fee:</b>	(c)
<b>FONPRODE:<sup>(d)</sup></b>	13.4	21.6	35	38.8	<b>Weighted average life:</b>	15.25
<b>Total:</b>	<b>34.5</b>	<b>55.5</b>	<b>90</b>	<b>100</b>	<b>Approval currency:</b>	United States dollar
Project at a Glance						
<b>Project objective/description:</b> The project's general objective is to sustainably increase the income of the beneficiary rural households in the Dry Corridor of Honduras. Its specific objective is to improve productive development in the project's target area by providing technologies, production-related technical assistance, and access to financing for the beneficiary population.						
<b>Special contractual conditions precedent to the first disbursement of the loan:</b> Conditions precedent to the first disbursement of the loan will be fulfillment to the Bank's satisfaction of the following: (i) the borrower, on its own or through the executing agency, will provide, to the Bank's satisfaction, evidence of signature and entry into effect of a loan agreement between the Kingdom of Spain and the borrower for the equivalent of US\$35 million, charged against the resources of FONPRODE, for cofinancing the program that specifies, <i>inter alia</i> , that the project will be executed pursuant to the applicable Bank policies and procedures; and (ii) approval and entry into force of the <a href="#">project Operating Regulations</a> in the terms agreed upon with the Bank, which include, <i>inter alia</i> , the environmental and social commitments set out in Annex B of the <a href="#">environmental and social management report</a> (paragraph 3.7).						
<b>Special contractual condition for execution:</b> Disbursement of the resources for Component 2 will be conditional on presentation by the borrower, to the Bank's satisfaction, of evidence that the necessary trusts have been created to administer the funds corresponding to Subcomponents 2.1 and 2.2 (paragraph 3.8).						
<b>Exceptions to Bank policies:</b> None						
Strategic Alignment						
<b>Challenges:<sup>(e)</sup></b>	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI	<input type="checkbox"/>
<b>Crosscutting themes:<sup>(f)</sup></b>	GD	<input checked="" type="checkbox"/>	CC	<input type="checkbox"/>	IC	<input checked="" type="checkbox"/>

<sup>(a)</sup> Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

<sup>(b)</sup> Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

<sup>(c)</sup> The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the relevant policies.

<sup>(d)</sup> The Development Promotion Fund (FONPRODE) is a financial instrument of the Spanish Agency for International Development Cooperation, regulated by Law 26/2010 of 22 October 2010 and Spanish Royal Decree 597/2015 of 3 July 2015. The framework financing agreement between the Bank and the Kingdom of Spain signed on 11 April 2017 stipulates that the Bank will charge a service fee for expenses incurred in project preparation. The cofinancing is expected to be considered for approval by FONPRODE's Executive Committee in December 2019 and will be issued by Spain directly to the Republic of Honduras. FONPRODE will disburse its resources *pari passu* with the Bank's resources.

<sup>(e)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(f)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problem addressed, and rationale

- 1.1 **Context.** Between 2010 and 2017, the country's average annual economic growth was 3.7%, which is on par with the rest of Central America and above that of the rest of the countries in Latin America and the Caribbean (2%). That growth was mainly driven by investment, exports, consumption, and remittances from abroad. However, growth of the Honduran economy has slowed, and its economic activity remains closely tied to the production of primary goods and low value-added manufactured goods. In 2018, economic growth slowed to 3.7%, compared to 4.8% in 2017, attributable to a decline in the main production-related activities and fluctuating commodity prices. The country also has a high poverty rate with more than 60% of the population living in poverty, especially in rural areas.<sup>1</sup>
- 1.2 **Significance of the agriculture and livestock sector.** Between 2013 and 2018, the agriculture and livestock sector accounted for an average of 12.3% of gross domestic product<sup>2</sup> and roughly a third of employment.<sup>3</sup> The sector is even more important in rural areas, where it employs 75% of the population over age 15 ([Bouroncle et al., 2015](#)) and is the primary source of income ([World Food Programme, 2018](#)). Yet this sector is characterized by low productivity ([Food and Agriculture Organization \(FAO\), 2018](#)), limited investment in services that support productivity and competitiveness ([Organization for Economic Cooperation and Development \(OECD\), 2016](#)), and high vulnerability to the impacts of climate change ([Government of Honduras, 2013](#)).
- 1.3 **Dry Corridor of Honduras.** The Dry Corridor of Honduras (DCH) extends along the western side of the country from the border with Guatemala down to the border with Nicaragua ([INVEST-Honduras, 2015](#)). The DCH has a population of 2.5 million and one of the country's highest rates of poverty (77% of total poverty) and malnutrition.<sup>4</sup> The agriculture and livestock sector is the main source of employment and income generation in the DCH ([World Food Programme, 2018](#)). It's climate conditions are adverse: harsh and extended summers along with recurrent drought during the rainy season. Climate change has exacerbated those conditions in the DCH, where extreme climate events (drought, severe rain, and storms) have occurred with greater intensity and frequency, thus expanding the geographical area of the DCH ([FAO, 2012](#)).
- 1.4 Poverty reduction in the DCH faces two main production-related challenges:
- 1.5 **Challenge 1. Sustainable productive development.** In order for rural households to overcome poverty, problems related to the agricultural sector need to be addressed since the sector is their main source of income. It is therefore necessary to identify the challenges faced by agricultural producers, including low productivity, the lack of a market focus, and a high degree of climate vulnerability.
- 1.6 **Productivity.**<sup>5</sup> Growth in productivity at the national level, as measured by total factor productivity, is below the Central American average (annual growth of 1.2% compared to

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<sup>1</sup> National Institute of Statistics. Multipurpose Continuous Household Survey.

<sup>2</sup> This figure was 12% for the last year information was available (2018).

<sup>3</sup> Figures as of 2017 based on the World Bank's World Development Indicators.

<sup>4</sup> Poverty and extreme poverty by municipio estimated based on the 2013-2014 poverty map prepared by the IDB and the World Bank.

<sup>5</sup> More information available in [optional link 10](#).

2.1%).<sup>6</sup> In addition, the DCH is one of the regions with the lowest productivity indices, e.g. corn and bean yields are equivalent to 6 q/mz<sup>7</sup> and 8.4 q/mz, compared to national averages of 23.6 q/mz and 11.2 q/mz, respectively. While climate variability adversely impacts production and productivity<sup>8</sup> (paragraph 1.8), those indexes could be improved with the adoption of technologies and best management practices ([Agricultural Science and Technology Agency \(DICTA\), 2013](#), [FAO, 2018](#), and [INVEST-Honduras, 2010](#)) (paragraph 1.9). However, the lack of resources for investment and the absence of technical assistance limit the adoption of technologies and best practices ([optional link 5](#)).

- 1.7 **Market focus.** The low levels of producer competitiveness and profitability is marked by monoculture, little readiness to form associations, and limited financing for strategic investments ([optional link 2](#)).<sup>9</sup> To improve market access, the culture of producers needs to be strengthened in the areas of greater crop diversification, quality improvements, value added, and product differentiation ([United States Agency for International Development \(USAID\), 2015](#)).
- 1.8 **Environmental considerations.** Producers are particularly vulnerable to recurrent droughts because of their traditional production systems, with low productivity and a lack of irrigation ([Future, 2018](#)). Vulnerability to climate change is aggravated by deforestation and environmentally unfriendly production practices ([optional link 5](#)). In this context, up to one third of climate change-related adverse impacts on food crop production crops could be mitigated by changing certain practices, according to projections for the DCH ([Government of Honduras, 2013](#)). At the same time, irrigation could reduce this vulnerability and enhance productivity, but access to this technology is limited due to its high cost and the low profitability of crops. Evidence shows that once producers achieve higher productivity, they reduce deforestation and become protectors of microwatersheds, ensuring an adequate supply of irrigation water for their crops ([optional link 5](#)).
- 1.9 The field of agricultural technologies and practices that enhance productivity while contributing to climate resilience and/or reducing emissions is known as climate-smart agriculture<sup>10</sup> ([World Bank and International Center for Tropical Agriculture, 2015](#)). Accordingly, the capacity of producers and specialists need to be strengthened to address this issue ([USAID, 2018](#)). There is also potential for poverty reduction ([USAID, 2016](#)) by focusing investments on the areas of greatest production potential ([Government of Honduras, 2013](#)).
- 1.10 **Consideration of gender and inclusion of young people.** Among the most vulnerable populations in the DCH are rural households headed by women, young people, and indigenous groups. As a result of the migration of heads of household to urban centers or places with better possibilities for employment, it is estimated that more than 40% of

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<sup>6</sup> See [Nin Pratt, A. C. Falconi, C. Ludena, and P. Martel \(2015\)](#).

<sup>7</sup> Quintals per manzana, 6 q/Mz is equivalent to 0.85 tons per hectare.

<sup>8</sup> For a general overview, [M. A. Lachaud, B. E. Bravo-Ureta, and Carlos E. Ludena \(2017\)](#). For expected reductions in yields in the DCH for the main crops of coffee, corn, beans, and rice, see [optional link 9](#).

<sup>9</sup> For example, in the case of coffee, 80% of the 64,000 producers in the DCH are individual producers with less than 10 *manzanas* of land. These producers sell their crops (without processing) to informal intermediaries and receive advances against their harvests. This does not generate sufficient economic resources to maintain their farms ([optional link 2](#)).

<sup>10</sup> Climate-smart practices include soil management, use of live hedges and artificial windbreaks, composting, agroforestry systems, minimal tilling, and microwatershed management. Climate-smart technologies include drip irrigation, use of plasticulture systems (e.g. Agribón), solar energy cooling systems, use of improved varieties, ecological coffee drying and processing, and use of information and communication technologies (ICT) ([project Operating Regulations, optional link 7](#), and [optional link 9](#)).

households in the DCH are headed by women ([USAID, 2010](#)) and that young people account for 38% of the total population.<sup>11</sup> These groups face the shared problems of gender inequality, food insecurity, and limited access to goods and services ([optional link 6](#)).

- 1.11 Consequently, gaps have arisen that have repercussions on development of the DCH. For example, in the case of coffee, women are primarily involved in the primary production stage and the collection and post-harvest stage, but not in product processing and marketing. Moreover, just 14% participate in decision-making related to production and sales.<sup>12</sup> If women had access to the same resources as men, production on their farms would increase by up to 30% and malnutrition could be reduced by at least 12% ([FAO, 2011](#)). For their part, the young people of the DCH often prefer to emigrate, which results in a lack of generational relief in the countryside ([optional link 6](#)). Agricultural skills training for women and young people, in addition to the benefits and opportunities afforded to them through access to financial credit, would enable these groups to increase their empowerment and autonomy.
- 1.12 **Challenge 2. Access to finance.** Banks do not finance small-scale producers due to their risk profile, climate vulnerability, and the lack of credit information and guarantees (just 7.6% of loans granted by the Honduran financial system go to the agriculture and livestock sector, with most formal lending extended for real estate purchases (22.7%) and consumption (21.3% in 2019). Only 7% of bank loans go to small-scale producers in this region. At the same time, banks do not have a broad enough network of coverage<sup>13</sup> or suitable financial products.<sup>14</sup> Medium- and long-term credit is scarce or nonexistent in this region for crops requiring a repayment cycle that is longer and more adapted to agroecological conditions. For example, in the case of basic grains, credit granted by the financial system (US\$8.2 million) is insufficient compared to the gross value added generated by the sector (US\$223.4 million) and its significance for the country's food security.
- 1.13 The Honduran financial system is comprised up of 32 intermediary institutions, including 15 commercial banks (95.5% of lending), 9 finance companies (2.7%), 3 State-owned banks (0.8%), and other nonbank financial intermediaries, which include 5 private financial development organizations and 20 savings and loan cooperatives (0.9%). Credit was equivalent to 64.1% of GDP in 2018, on par with the level for Central America (68.1%). Lending conditions differ by institution,<sup>15</sup> but on the whole producers in the sector<sup>16</sup> are not prioritized as loan recipients. Consequently, there is not a significant portfolio of financial products for this segment of producers in the DCH.
- 1.14 This lack of credit for traditional crops can be explained by the inability to anticipate the profitability of crops and the related income volatility, and by the size of producer operations, which represents a significant barrier for banks in terms of operating costs and

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<sup>11</sup> Young people are those between the ages of 18 and 30, as defined in local legislation.

<sup>12</sup> See [optional link 2](#).

<sup>13</sup> Of the 6,470 active bank branches in the country, just 12% (776) are in the DCH.

<sup>14</sup> Refers to long-term loans, grace periods, and payments aligned with the production cycle. The Central American and Caribbean Microfinance Network (REDCAMIF), the Honduran Association of Banking Institutions (AHIBA), and the Central Bank of Honduras (2017).

<sup>15</sup> Requirements include guarantees such as mortgages, reciprocal guarantees, credit records, accounting documentation, and audited financial information. Interest rates on short-term loans for working capital are as high as 32%.

<sup>16</sup> Excepting highly formalized chains such as sugarcane outside the area of intervention ([optional link 2](#)).

level of risk. In short, access to credit in the DCH is scarce and loans are short-term due to: (i) very small-scale crops with low profitability; (ii) high income volatility as a result of price fluctuations or an effect of climate change; (iii) high operating costs of banks, which make it unprofitable to grant small loans; (iv) lack of linkages between small and medium-sized producers and markets, limiting the possibility of generating credit information or information on the flows of producer income); and (v) lack of lending products suited to the generation of farm income.

- 1.15 **Estimated demand.** [Credit demand](#) in the DCH is high due to limited lending by the financial system. While the national gross value added of the region's main crops (coffee and cocoa) is US\$1.412 billion, financial system lending at the national level is just US\$206 million. Overall, demand for production-related loans for working capital and fixed capital investments in agriculture exceeds US\$400 million at the national level. In the DCH there is an estimated unmet demand for loans for productive investments in the main production-related areas of more than US\$200 million. This calculation is based on the number of producers, investment needs, and expenditures required to spur productive development in the DCH's priority areas and chains.
- 1.16 **Area and scope of the intervention.** Twenty clusters have been identified in the DCH that have potential for development or improvement under the following main criteria: (i) potential complementarity with other interventions; (ii) number of potential beneficiaries; (iii) potential labor force; (iv) workers in other production-related activities; and (v) income level (below the poverty line). These clusters are productive units grouped around municipios, villages, and communities. Of the 20 clusters, 7 were selected following an initial process of identifying and quantifying households, and after applying exclusion criteria for the villages based on: (i) maximizing the coordinated presence of donors in that area; (ii) increasing the number of beneficiaries and the existence of households close to the poverty line; and (iii) seeking coordination efficiencies through proximity to transportation operators and potential for the development of businesses such as aquaculture, forestry, and cocoa and coffee improvements. In order to maximize the project's effectiveness and focus efforts, the intervention will concentrate on populations above the extreme poverty line, bearing in mind that households below that line are prioritized and supported by the government's conditional cash transfer programs. Those clusters are located in the departments of Santa Bárbara, Copán, and Ocotepeque, which include the municipios of El Carrizal, Sensenti, Trinidad de Copán, Azacualpa, San Luis, San Vicente Centenario, and El Sauce ([optional link 11](#)).
- 1.17 According to a survey of the production-related conditions of the clusters selected, coffee is the main crop grown by small-scale producers.<sup>17</sup> Other value chains with potential for increasing income and bringing households out of poverty are vegetable gardens, fruit production (avocados, rambutan, and citrus), cacao, livestock (minor species), and processing of bananas, milk, meat, and honey. Those chains are important in the region, meet the necessary conditions to implement productive development and financing activities, and have potential for connecting producers with markets, including potential for product differentiation and generation of value added.
- 1.18 **Institutional and strategic framework of the Government of Honduras.** The Ministry of Agriculture of Honduras is responsible for designing and directing agricultural development policies in the country, together with agencies from the local ecosystem that support productive development, such as Instituto de Conservación Forestal [Forest Conservation

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<sup>17</sup> More than 64,000 producers, where 80% are small-scale and need technical assistance in order to increase productivity ([optional link 2](#)).

Institute] (ICF) and DICTA. The project dovetails with the following strategic plans: Country Vision 2010-2038; National Plan 2010-2022; Government Strategic Plan 2018-2022; and others directly related to the agriculture and livestock sector, including: Country Investment Plan for the Agrifood Sector; Strategic Plan for the Agrifood Sector of Honduras; and National Strategy for Food and Nutrition Security ([optional link 5](#)). Likewise, for existing initiatives in the DCH, the Alliance for the Dry Corridor of Honduras (ACS) provides an institutional framework, governance, and a coordination platform for donors active in the region ([optional link 12](#)).

- 1.19 **Complementarity and coordination with other donors in the DCH.** The Honduran government established the ACS in 2014 to coordinate efforts aimed at reducing poverty and malnutrition through strategic investments in a number of the DCH's vulnerable communities. The initial projects of ACS included: ACS-USAID for US\$69 million, the Global Agriculture and Food Security Program for US\$11 million, the Rural Competitiveness Project (Comrural) (productive development) of the World Bank for US\$50 million, the Water Harvest Program (national funds) for US\$6 million, and Eurosan of the European Union (food security and nutrition) for US\$30 million.<sup>18</sup> Those initiatives seek to reduce poverty through actions geared toward sustainable productive development and access to finance ([optional link 5](#) and [optional link 12](#), which provide information on the results). The main outcome of ACS-USAID was an increase in income related to technical assistance and productive investments (e.g. irrigation). The evidence gathered from USAID's impact evaluation shows that productivity can increase considerably by introducing low-cost agricultural practices that are easily implemented ([USAID, 2015](#)). With this approach, in 2016-2017, income of households in extreme poverty increased by more than 130% (in nearly four years), and the net profit margins on coffee and milk increased by 37% and 228%, respectively. In addition, 26,000 hectares received assistance with good practices in environmental management and technologies ([USAID, 2018](#)). This demonstrates the significance of rural micro, small, and medium-sized enterprises (MSMEs) in the agriculture and livestock sector for generating and diversifying income, which helps alleviate poverty. Despite all the initiatives in the DCH, there is no central platform in place to compile and share all the information generated by those projects, a problem that Component 3 of this operation will help resolve (paragraph 1.41).
- 1.20 This project has been developed in coordination with other donors involved in the DCH (paragraph 1.19; World Bank, USAID, and the European Union), which worked together on the project's design phase to identify priority clusters, taking into account the complementarity of their interventions, as well as a focus on areas that still require intervention. With this program, the IDB will complement those initiatives, targeting beneficiaries without access to those programs and beneficiaries that still require support to overcome poverty.
- 1.21 **International experience and good practices.** Comprehensive development projects can support poverty reduction and ensure that this effect is maintained over time. However, in order to increase the likelihood of that being achieved, it is critical for the project to be targeted geographically, to have a regional approach and a flexible execution structure, and to meet needs beyond those of the agricultural sector (e.g. infrastructure and basic services) ([Barnet, C., 2018](#)). There is extensive experience in Latin America and the Caribbean with the development and implementation of these projects. An analysis of

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<sup>18</sup> INVEST-H is the executing agency for all of these initiatives, which has facilitated coordination of the interventions of various donors in the DCH starting with the design phase.

the experiences highlights the following good practices ([Flores, 2019; optional link 8](#)): (i) development of demand-driven approach for market access, supported by other services (e.g. technical assistance, market information, and financing), and incorporation of information and communication technologies (ICTs) to enhance productivity and confront climate change; and (ii) promotion of financing tailored to farmers' repayment capacity, as well as development and promotion of new financial products, such as guarantee funds for MSMEs.<sup>19</sup> The latter cover a portion of the heightened default risk of groups without access to credit, thus resolving market failures related to information asymmetries.<sup>20</sup>

- 1.22 The design of this project has taken into account experiences with similar projects that have met with positive impacts, such as the Comprehensive Financing Program for Productive, Inclusive, and Sustainable Rural Development (ME-O0006).<sup>21</sup> An evaluation of that program indicated that sales per hectare of the rural economic units that received financing increased by 23.5%.<sup>22</sup> Other recent studies show the impact of credit on poverty, such as loans made by the Bank in Colombia for coffee producers,<sup>23</sup> considering two sets of outcome variables: farm variables (such as area of coffee production, age of coffee plantations, and density); and the standard of living of the coffee farmers (Quality of Life Index<sup>24</sup> (QLI) and each of its components). Through a panel data model with fixed effects and tools, together with common support given by estimated propensity scores, it was found that credit: increased the area planted by between 0.09 hectares and 0.61 hectares; increased the ratio of area planted with coffee to farm area by between 0.59% and 8.06%; and reduced the age of coffee plantations by between approximately 0.51 years and 1.83 years. Evidence was also found that credit increases the QLI by 7 percentage points.
- 1.23 Likewise, guarantee funds may be an effective way of correcting market failures, as indicated in paragraph 1.21. Evidence derived from various funds in Chile, Peru, Colombia, and Mexico<sup>25</sup> and outside of Latin America and the Caribbean show that these funds have helped companies access financing under terms and conditions that are suited to their needs. Those interventions have had positive impacts on production, sales, investment, employment, and productivity. In recent years, the IDB has approved and satisfactorily implemented three guarantee systems (operations [4115/OC-JA](#), [3389/OC-BA](#), and [3042/BL-NI](#)).
- 1.24 **Additional Bank experience in the region and lessons learned.** The execution of similar projects has provided lessons learned that have been evaluated<sup>26</sup> and taken into consideration in the design of this project (operations [1919/BL-HO](#), [1643/OC-UR](#), [2595/OC-UR](#), [2443/OC-DR](#), [1800/OC-PR](#), [2055/BL-NI](#), [3042/BL-NI](#), [3177/BL-NI](#),

<sup>19</sup> [OECD, 2010](#); and [European Investment Fund, 2019](#). The latter concludes that credits backed by guarantees positively affect the growth of assets (19.6 percentage points), sales (14.8 percentage points), and employment (16.9 percentage points).

<sup>20</sup> Asymmetries between the financial institution and its customer, and the moral risk created by the customer's behavior.

<sup>21</sup> Supported with resources from Economic and Sector Work (operation RG-K1445).

<sup>22</sup> Bobic et al., 2019. Measuring the Effects of Productive Credit through Public Development Banks in Rural Mexico.

<sup>23</sup> [Echeverria et al., \(2017\) a and b](#).

<sup>24</sup> The QLI used by the system to select potential beneficiaries for social programs (SISBEN) is a multivariable index that considers qualitative and quantitative elements related to access to services, human capital, household characteristics, and housing quality.

<sup>25</sup> [OECD op cit, 2010](#), evidence of [Larraín and Quiroz, 2006](#), [Drexler, et.al., 2008](#), [Llisterri, et al., IDB, 2006](#); [Alvarado and Galarza, 2002](#), and [Arraiz, et al., IDB, 2012](#).

<sup>26</sup> See summary in: [Experiences and lessons learned in comprehensive development projects \(optional link 8\)](#).

[4010/BL-NI](#), [3701/OC-ME](#), and [3042/BL-NI](#)), most notably, the importance of: (i) developing comprehensive proposals with a regional focus; (ii) linking technical assistance with credit, incorporating a focus on value and market chains; (iii) prioritizing work with rural households; (iv) supporting the adoption of technologies, including comprehensive technical assistance; and (v) designing financial products tailored to the needs of producers, including a credit component to address demand associated with the financing of climate-smart technologies.

- 1.25 **Complementarity with Bank initiatives.** The DCH faces social barriers to achieving poverty reduction. Accordingly, the Bank is designing and executing complementary operations to address those challenges. The operations Improving Educational Quality to Develop Skills for Employment ([4449/BL-HO](#)) and Improvement in the Management and Quality of Maternal-Neonatal Health Services ([4619/BL-HO](#)) focus efforts on health and education solutions in the seven priority clusters. There are also road connectivity challenges in the selected clusters. Thus, the Bank is supporting INVEST-Honduras in identifying rural roads to connect productive regions in the prioritized area.<sup>27</sup> In this way, the Bank is promoting a comprehensive approach to ensure that investments in the region are sustainable. This complementarity and regional focus should support poverty reduction and help ensure that this effect is maintained over time.<sup>28</sup>
- 1.26 **Gender and inclusion of young people.** This project will include special considerations of gender and young people in the provision of technical assistance to prepare specific contents and for the adoption/generation/adaptation of technologies to drive innovation and entrepreneurship in those groups, most of which have capacity to adopt these technologies, specifically under the activities of Subcomponent 1.1 (paragraph 1.33) and Subcomponent 1.2 (paragraph 1.34). Based on the diagnostic assessment and workshops held to identify gaps and activities applicable to the project ([optional link 6](#)), interest has been expressed in developing ICTs for those groups, such as web platforms, marketing strategies, and training focused on women and young people, within the scope of Subcomponent 1.2 (paragraph 1.34). Other activities that will facilitate and ensure the participation and access to resources of those groups are assistance and capacity-building for accessing credit, the identification of organizations headed by women in order to prioritize them as beneficiaries, the development of business models, and the strengthening of partnerships and leadership, in accordance with those proposed under Subcomponent 1.2 (paragraph 1.34).
- 1.27 **Innovation.** The innovativeness of the project lies in its approach, which combines technical assistance with financing, channeled through loans and guarantees, under a territorial focus based on market needs and that takes the entire productive chain into account. Likewise, the incorporation of new technologies to facilitate the monitoring of rural household indicators under Component 3 will help generate consolidated information as input for future interventions in the DCH.
- 1.28 **Strategic alignment.** The project is aligned with the Update to the Institutional strategy 2010-2020 (document AB-3008) through the challenges of: (i) productivity and innovation, by supporting increased productivity through the adoption of new productive technologies in the agriculture and livestock sector; and (ii) social inclusion and equality, because it contributes to poverty reduction by improving rural household income through productive development. It is also aligned with the crosscutting themes of: (i) gender

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<sup>27</sup> Using resources from technical cooperation [ATN/OC-17334-HO](#), a survey is being taken in the clusters with the purpose of determining the feasibility of road investments.

<sup>28</sup> [Masset, 2018](#).

equity and diversity, by carrying out activities that support women's participation in productive activities and women's access to financial products; (ii) institutional capacity and rule of law, by improving executing agency monitoring and evaluation systems, such as INVEST-Honduras; and (iii) climate change and environmental sustainability, because sustainable productive practices will be adopted. Practically all of the operation's resources will be invested in climate change adaptation activities, according to the [joint methodology of the multilateral development banks for tracking climate change adaptation finance](#).

- 1.29 The project also contributes to indicators of the Corporate Results Framework 2016-2019 (document GN-2727-6) by developing a monitoring system of activities that will make it possible to measure the beneficiaries' progress attributable to projects aimed at fighting poverty, financing micro and small enterprises, and giving farmers better access to agricultural services and investments. The project is consistent with the Agriculture and Natural Resources Management Sector Framework Document (document GN-2709-5), Food Security Sector Framework Document (document GN-2825-3), and Climate Change Sector Framework Document (document GN-2835-8), in the dimensions of success of high levels of agricultural productivity, management of climate impacts on the sector, and reduction of the vulnerability of food systems to climate change. It is also consistent with the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7), since it will provide additional sources of financing to rural MSMEs in the DCH. The project is aligned with the IDB Group Country Strategy with Honduras 2019-2022 (document GN-2944) since it is linked to the strategic objectives of: (i) reducing poverty; and (ii) expanding access of agricultural MSMEs to financing. The project is included in the Update of Annex III to the 2019 Operational Program Report (document GN-2948-2). Lastly, the operation is aligned with the Plan of the Alliance for Prosperity in the Northern Triangle through the strategic pillar of stimulating the productive sector by promoting agriculture as a strategic sector and access to productive financing in the DCH.

## **B. Objectives, components, and cost**

- 1.30 The project's general objective is to sustainably increase the income of the beneficiary rural households in the DCH. Its specific objective is to improve productive development in the project's target area by providing technologies, production-related technical assistance, and access to financing for the beneficiary population.
- 1.31 **Beneficiaries.** The project is expected to directly benefit 30,000 rural households in the seven selected clusters. Of those, 15,000 are expected to overcome poverty. To accomplish this, the beneficiary population's productive development needs will be addressed. That population is comprised of: (i) agricultural producers in the project's target area encompassing the seven clusters, who will benefit from access to technologies, information, technical assistance, and credit;<sup>29</sup> (ii) women-led MSMEs,<sup>30</sup> that will benefit from technical assistance to facilitate access to new products and markets; and (iii) ventures led by young people, that will benefit from access to technical assistance and services.

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<sup>29</sup> See [optional link 2](#), [optional link 4](#), and [optional link 11](#) for a description of the potential population of small-scale producers in the selected clusters by value chain: average size of producer based on cultivated surface area and investment requirements, and average size of loans required for working capital and fixed capital. The [project Operating Regulations](#) establish a maximum size for producers receiving technical assistance and credit at 50 manzanas of land, equivalent to 35.25 hectares.

<sup>30</sup> Companies led by or in which the majority of their members are women.

- 1.32 **Component 1. Strengthening of productive development (US\$46 million).** This component is geared toward strengthening the competitiveness and sustainability of value chains; it includes a market focus and climate considerations. Beneficiaries will mainly include producers, producer associations, and MSMEs based on the following criteria: (i) producers' income must be above the extreme poverty line and below the moderate poverty line, based on the World Bank's definition of US\$1.90 and \$3.20 per person per day, respectively; (ii) associations comprised mainly of producers that meet the project's eligibility requirements; and (iii) MSMEs with a majority of eligible members or with an investment plan that focuses primarily on providing services, buying products, and/or generating employment (see [project Operating Regulations](#) for further details).<sup>31</sup> The execution of this component provides for the preparation of technical assistance plans that address the cofinancing of production-related investments. The project includes the following subcomponents:
- 1.33 **Subcomponent 1.1. Adoption of climate-smart technologies (US\$20 million).** The project will provide nonreimbursable support to producers and producer associations, promoting the participation of women and young producers, with the objective of cofinancing investments to enhance productivity and competitiveness (e.g. generation of value added, differentiation, improvement in quality, innovation, and development of new products and productive chains). This will be accomplished by implementing climate-smart technologies.<sup>32</sup> Investment support will not exceed 60% of the total investment amount, or up to US\$2,000 per producer. A counterpart contribution will also be required from the beneficiary (in cash and/or in kind), including the option for a contribution from strategic partners or entities that are eligible to supply credit (i.e. financial intermediaries and anchor companies described in Component 2, and municipalities (paragraph 1.39, (i) and (ii)). The investment plan will focus on tackling the problems of producers based on market demand. Technologies will be identified according to the needs of producers and will be based on: (i) local and market conditions; (ii) technical, economic, and financial viability; and (iii) contribution to climate change adaptation and/or mitigation. The [project Operating Regulations](#) describe the selection criteria for beneficiaries and technologies in greater detail.
- 1.34 **Subcomponent 1.2. Comprehensive technical assistance (US\$22.5 million).** The purpose of this subcomponent is to provide comprehensive technical assistance to eligible producers, to be provided by technical teams with a local presence (hired by the executing agency). This assistance consists of advisory services and training on market and production-related topics, business management, credit management, and nutrition. The participation of women and young people will be encouraged as part of the subcomponent's activities, with emphasis on training content and the identification of members of these groups to include them as project beneficiaries.
- (i) **Production and market.** Geared toward: (i) improving management practices and climate-smart technologies for agricultural production aimed at enhancing productivity, the use of natural resources, and diversification of production; and (ii) improving market access, commercial linkages and links with suppliers of inputs/services, and entrepreneurial capacities.
  - (ii) **Credit management.** This area encompasses assistance to help producers access financing (targeting cooperatives, producer associations, and rural savings and loan banks, helping them to become eligible for Component 2).

<sup>31</sup> The same selection criteria will be applied in all of the subcomponents of Component 1 (paragraph 1.32).

<sup>32</sup> See paragraph 1.9 as well as the [project Operating Regulations](#) and [optional link 9](#) for further details.

- (iii) **Nutrition.** With a focus on rural households, this area will provide training in nutrition, food hygiene, family gardens, and improving living conditions.

- 1.35 **Subcomponent 1.3. Microwatershed management and conservation (US\$2 million).** The project will work with municipalities, municipal associations, and local organizations to approve and implement microwatershed management plans,<sup>33</sup> as well as investment activities to improve the management and conservation of microwatersheds in the target area that are critical to the water supply.
- 1.36 **Subcomponent 1.4. Strengthening of services (US\$1.5 million).** The executing agency will sign agreements with public, private, and academic institutions that strengthen the coverage and quality of services, such as: research, market and business intelligence, certification, plant and animal health, food safety, and development of new products. These agreements will result in the development of training programs and methodologies to provide technical assistance to producers, organizations, and MSMEs in the target area that lead to the adoption of ICTs.
- 1.37 **Component 2. Access to financing (US\$34.5 million).** This component will address the expansion of financing to eligible small-scale producers<sup>34</sup> through financial intermediation geared toward incorporating them into value chains and promoting stable sources of income. This component includes two subcomponents based on the financial product offered. The resources will be managed through two trusts for which INVEST-Honduras will serve as the trustor (paragraph 3.4).
- 1.38 **Subcomponent 2.1. Access to credit (US\$29.5 million).** A trust will be created (paragraph 3.4), which will allow the beneficiary producers of Component 1 and others located in the selected clusters with market-based investment plans to access financing for fixed assets and working capital (for production and diversification, generating value added, processing, sale, tapping of new markets, and/or resiliency).<sup>35</sup> Financing of fixed assets will spur new investments or expand existing ones. The loan terms will include grace periods for repayment of principal during the period when the investment is not generating income. Those periods will be aligned with the potential profitability of the crop and the generation of income will be based on the amounts of the planned investments.
- 1.39 Those products will also incorporate credit analysis methodologies and alternative means of analyzing beneficiaries with no credit history. When using the funds, emphasis will be placed on activities that include a climate change mitigation and adaptation approach. In order to connect small-scale producers with the market, the project will work through entities eligible to disperse credit (brokers, processors, marketers, and exporters) that can integrate these producers into their value chain. The following entities will be eligible to disperse credit under this component:
  - (i) **Financial intermediaries (credit and producer cooperatives, finance and microfinance institutions):** whose beneficiaries are small-scale producers that require long-term financing for working capital and fixed assets to enhance their productivity, access the market, and diversify. Those beneficiaries will receive credit-related technical assistance for entrepreneurship, alliance building, administration, and credit management

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<sup>33</sup> Seven communities have been identified that encompass 19 municipios ([project Operating Regulations](#)) located in the clusters, which will be prioritized prior to beginning the activities and with consideration for the available budget.

<sup>34</sup> The same criteria established for Component 1 will be applied (paragraph 1.32).

<sup>35</sup> Such as drip irrigation systems, installation of hoop houses and greenhouses, water tanks, and fertigation.

(in Component 1). The [project Operating Regulations](#) establish eligibility and set ceilings by type of entity and individually with respect to receipt of funds. In this way, it is anticipated that beneficiaries who until now have not had access to credit will improve their conditions and become informed of the obligations, responsibilities, and opportunities afforded to them through access to resources.

- (ii) **Anchor companies (or inclusive business model companies):** that are already operating or have plans to establish their businesses in the region. Loans to these companies will be long term. Those companies will demonstrate that they have a business model which, through investment, can incorporate and include small-scale producers from the region. The [project Operating Regulations](#) also set caps on the amount of funds the companies can receive.

- 1.40 **Subcomponent 2.2. Access to guarantees (US\$5 million).** A guarantee fund will be created to leverage resources from the local financial sector by reducing the perceived risk levels of investment projects in production-related infrastructure and technology adoption, with a view to supporting greater supply chain coordination. The guarantee fund will: (i) meet the credit needs of producers with little or no access to credit who have sustainable business plans; and (ii) minimize its costs through prudent management of the portfolio and conditions for access. The fund will guarantee credit portfolios for regulated and/or supervised financial intermediaries. A trust will be created that will be responsible for monitoring and tracking that portfolio (paragraph 3.4).
- 1.41 **Component 3. Monitoring and evaluation system (US\$3 million).** A household monitoring system will be implemented for the DCH with monitoring indicators from this project and from the operations of other donors (paragraph 1.19). The experience of INVEST-Honduras in the DCH and the baselines for monitoring activities of other agencies in the target area will be the basis for developing a digital data integration platform. That system will monitor each rural household and will make it possible to determine their status in terms of level of poverty, well-being, production-related activities, and financing. New digital technologies will be used to periodically monitor indicators. Indicators from complementary operations of the Bank or other donors will be included in the same system. Accordingly, the project will obtain both social and production-related information on the households. The participation in the project of various groups, such as indigenous peoples, will also be tracked. This system is expected to be able to generate integrated information on the effectiveness of the interventions, and to be used to develop public policies beyond the specific projects.
- 1.42 A study will also be conducted using experimental methodologies rooted in behavioral economics to evaluate and gain a better understanding of factors that influence decision-making on: the adoption of technologies, technical assistance, and borrower behavior in the context of loan repayment.
- 1.43 **Administrative and other expenses (US\$6.5 million).** This budget item will finance the staffing costs of the project coordination unit, operating costs, subject matter experts, component coordinators, external and environmental audits, and the midterm and final evaluations. Notably, these administration expenses are typical for this type of project, where geographical and logistical complexities underscore the need for efficient execution capacity.

### C. Key results indicators

- 1.44 The project is expected to contribute to poverty reduction in the medium and long term. At the specific objective level of strengthening production-related development, the outcomes will be: (i) greater adoption of and access to technologies; (ii) strengthened market access of women and young people; (iii) increased production-related investment; and (iv) improved agricultural income and poverty reduction.
- 1.45 **Technical and economic viability.** The project's economic viability is based on the [cost/benefit analyses](#) of each project intervention. The economic benefits were estimated by evaluating the outcomes in the results matrix and applying the appropriate methodologies to estimate the project's economic internal rate of return and net present value. The overall net present value calculated was US\$181.96 million. The economic internal rate of return was 67%. A sensitivity analyses were conducted of the relevant parameters, such as production costs, sales, and farm composition in terms of crop diversification, yielding incremental benefits for all assumptions ([optional link 1](#)).

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 The project's estimated cost is US\$90 million. It will be financed through the following instruments: (i) a global credit loan (GCL) from the IDB for US\$21.1 million (US\$7.385 million in Ordinary Capital and US\$13.715 million in concessional Ordinary Capital) with 13.4 million in cofinancing from FONPRODE,<sup>36</sup> which will finance Components 1, 2, and 3, to include activities associated with production-related technical assistance, monitoring system development, and administration expenses; and (ii) a specific investment loan (SIL) from the IDB for US\$33.9 million (US\$11.865 million from the Ordinary Capital and US\$22.035 million from concessionary Ordinary Capital) with US\$21.6 million in cofinancing from FONPRODE, which will address Component 2, to include activities aimed at extending credit and guarantees to the project's beneficiaries. This structure was chosen for the project in order to differentiate the scope and nature of each component, and to facilitate orderly monitoring by financing instrument. The project will have a five-year disbursement period.

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<sup>36</sup> As negotiated with FONPRODE, the Bank will charge that fund a service fee to cover the project's administration costs, in accordance with the Cofinancing Framework Agreement. Approval of the cofinancing is expected in December 2019.

**Table 1. Estimated project cost by instrument and source of financing (US\$)**

	IDB Ordinary Capital	IDB concessional Ordinary Capital	FONPRODE	Total
HO-L1201 (GCL)	7,385,000	13,715,000	13,400,000	34,500,000
HO-L1211 (SIL)	11,865,000	22,035,000	21,600,000	55,500,000
<b>Total</b>	<b>19,250,000</b>	<b>35,750,000</b>	<b>35,000,000</b>	<b>90,000,000</b>
<b>%</b>	<b>21.4</b>	<b>39.8</b>	<b>38.8</b>	<b>100</b>

**Table 2. Estimated project costs by component (US\$ millions)**

Component	IDB	FONPRODE	Total	%
<b>Component 1. Strengthening of productive development</b>	<b>28.1</b>	<b>17.9</b>	<b>46</b>	<b>51.1</b>
<i>Subcomponent 1.1: Adoption of climate-smart technologies</i>	12.2	7.8	20.0	22.2
<i>Subcomponent 1.2: Comprehensive technical assistance</i>	13.8	8.7	22.5	25.0
• Production and market	12.2	7.8	20.0	22.2
• Credit management	0.9	0.5	1.4	1.5
• Nutrition	0.7	0.4	1.1	1.2
<i>Subcomponent 1.3: Microwatershed management and conservation</i>	1.2	0.8	2.0	2.2
<i>Subcomponent 1.4: Strengthening of services</i>	0.9	0.6	1.5	1.7
<b>Component 2. Access to financing</b>	<b>21.1</b>	<b>13.4</b>	<b>34.5</b>	<b>38.4</b>
<i>Subcomponent 2.1: Access to credit</i>	18.0	11.5	29.5	32.8
<i>Subcomponent 2.2: Access to guarantees</i>	3.1	1.9	5.0	5.6
<b>Component 3. Monitoring and evaluation system</b>	<b>1.8</b>	<b>1.2</b>	<b>3.0</b>	<b>3.3</b>
<b>Administrative expenses or other contingencies</b>	<b>4.0</b>	<b>2.5</b>	<b>6.5</b>	<b>7.2</b>
<b>Total</b>	<b>55</b>	<b>35</b>	<b>90</b>	<b>100%</b>

**Table 3. Projected disbursements (US\$ millions)**

Year	Amount	%
2020	543,643	0.6%
2021	12,245,488	13.6%
2022	42,794,902	47.6%
2023	20,716,545	23.0%
2024	13,699,422	15.2%
<b>Total</b>	<b>90,000,000</b>	<b>100%</b>

## **B. Environmental and social risks**

2.2 In accordance with Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), because operation HO-L1201 is a financial intermediation operation, it cannot be classified ex ante. An environmental and social due diligence review was conducted in compliance with Directive B.13, analyzing the potential social and environmental risks of the eligible subprojects and the capacity of INVEST-Honduras to manage those risks as the executing agency. Based on the results of the due diligence review, this operation is considered to have a medium-level financial intermediation risk (FI-2). The institutional capacity of the executing agency is highly developed, and the

potential direct and indirect social and environmental impacts of the subprojects eligible for financing with project resources are small, and have reversible, temporary, and localized effects for which there are known mitigation and compensation measures that are feasible to implement. Category “A” and “B” subprojects will not be eligible for financing.

- 2.3 **Operation HO-L1211.** Also in accordance with Operational Policy OP-703, operation HO-L1211—a specific investment loan—has been classified as a category “C” operation. Its focus is on promoting climate-smart agricultural practices, by financing small-scale activities that could pose low-level environmental and social risks and negative impacts.
- 2.4 At the social level, both projects are located in an area with Maya Ch’ortí and Lenca populations. For that reason, pursuant to the operating guidelines of Operational Policy OP-765, a sociocultural analysis was included in the [environmental and social management report](#). The analysis concluded that, in general, the risks of potential adverse impacts on the indigenous populations is low. The project’s execution is not expected to alter their cultural, ethnic, historical, or religious traditions or to introduce practices that would alter the environment. At the local level, the possibility of a low level of participation in the project on the part of indigenous populations was identified as a risk, as were measures to mitigate that risk and are described in the [environmental and social management report](#). These measures include a participation plan that, upon receiving the Bank’s no objection, will be incorporated into the [project Operating Regulations](#) as a condition precedent to the first disbursement (paragraph 3.7).
- 2.5 In the risks workshop for this project, a medium-level environmental and social sustainability risk was identified for both operations, associated with the fact that the DCH is highly vulnerable to adverse climate phenomena (paragraph 1.3), which can adversely impact the ability of producers to generate income. Accordingly, the following mitigation measures are proposed: (i) concrete investments in crop protection and production (Components 1 and 2); (ii) establishment of a guarantee fund to reduce exposure to credit risk in the event of climate phenomena (Component 2); and (iii) introduction of climate-smart agriculture that incorporates mitigation and adaptation measures in the technical assistance plans.

## **C. Fiduciary risks**

- 2.6 A medium-level procurement risk was identified, specifically related to the concentration of resources in a limited number of contracts. Mitigating factors include: (i) the project will be executed in strict compliance with the Bank’s procurement policies as established in the loan contract and the [project Operating Regulations](#), including application of the necessary internal controls; (ii) INVEST-Honduras will apply its extensive and proven experience, management capacity, and installed control capacity for process management; and (iii) appointment by INVEST-Honduras of procurement specialists permanently assigned to the project.

## **D. Other risks and key issues**

- 2.7 **Development risks.** Three medium-level risks have been identified: (i) water access and use conflicts, to be mitigated through exhaustive work with local organizations with a view to ensuring appropriate and effective management and distribution of the region’s water resources; and consensus-building on microwatershed management plans with those agencies, municipios, and government authorities; (ii) adverse fluctuations in the prices of agricultural products, to be mitigated through technical assistance and technology transfer activities aimed at promoting crop diversification as a means of reducing the vulnerability of local producers to agricultural prices, as well as through the development of collection

centers, logistics management, transportation improvements, development of market linkages, and application of ICTs to access market and price information; and (iii) delayed approval of the FONPRODE cofinancing resources, to be mitigated through ongoing dialogue and steps being taken by the Bank with FONPRODE to ensure timely approval of the resources.

- 2.8 **Project sustainability.** In terms of sustainability, the project's design incorporates an intervention strategy with activities that seek to have an impact beyond the time horizon of implementation, developing a blended model of technical assistance combined with financing and a territorial approach. Strategic partnerships with companies comprising the value chains, institutional coordination, and access to medium-term financing are key pieces of this model. At the same time, the Bank's technical assistance in priority areas such as health and education (paragraph 1.25) ensures a comprehensive approach. Those elements, combined with the institutional and strategic framework of the Honduran government (paragraph 1.18), as well as the coordinated action of donors through establishment of the ACS (paragraphs 1.19 and 1.20), support the country's commitment to promoting development and poverty reduction in the DCH through innovative proposals.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Honduras. The project's executing agency will be INVEST-Honduras. INVEST-Honduras is a management agency (planning, administration, and implementation) of strategic projects and programs for the country's development. It is attached to the Secretariat of General Coordination of the Government of Honduras (SCGG). INVEST-Honduras was founded in 2005 as the agency tasked with managing grant funds from the United States Millennium Challenge Corporation. It has more than seven years of experience executing IDB projects.<sup>37</sup> It is also executing ACS projects (paragraph 1.19).
- 3.2 **Coordination and execution mechanism.** INVEST-Honduras has a projects unit that is responsible for executing production-related development and financing projects. The unit has a general coordinator, as well as financial, procurement, environmental, and administrative specialists. Any change in the composition of the projects unit will require the Bank's no objection. In order to execute the project, the unit will be strengthened by hiring technical specialists for each component, a procurement specialist, and an environmental specialist. The activities of Component 1 will be executed by hiring a firm to implement the proposed activities. Agreements will be reached with public, private, and academic institutions for purposes of strengthening of services.
- 3.3 **Strategic coordination.** As a government agency, the SCGG will be responsible for interagency coordination with the various entities required for the project. The SCGG will work closely with the public and private sectors as well as universities for dialogue and the promotion of various initiatives in the framework of the ACS.
- 3.4 The resources corresponding to Component 2 are to be managed by two trusts (a credit trust under Subcomponent 2.1; and a guarantee trust under Subcomponent 2.2), which will be created by the executing agency working through an intermediary institution (paragraph 3.8).<sup>38</sup> The trustor will be the executing agency, which, through the trusts, will

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<sup>37</sup> Operations [3815/BL-HO](#) and [3771/BL-HO](#).

<sup>38</sup> Given that by law INVEST-H may not act as trust administrator, that entity will invite bids in the local market.

transfer funds to the intermediary institutions and anchor companies selected for their management. Those trusts will supply information on execution of the loans and guarantees to the executing agency.<sup>39</sup> A credit committee will be formed, comprised of the director of INVEST-Honduras and the coordinators of Components 1 and 2. The committee will have authority to approve operations based on the criteria set out in the [project Operating Regulations](#), as well as to monitor reporting on these subloans and guaranteed loans.

- 3.5 Component 3 will be executed directly by the executing agency since it has a monitoring unit that will be strengthened to develop the monitoring system for the DCH (Component 3). Monitoring will take place in coordination with the SCGG, the agency responsible for coordinating social development and poverty reduction programs throughout the country.
- 3.6 The executing agency will have fiduciary responsibility for the project's resources and the following duties: (i) provide financial resources for the works and services defined in the [multiyear project execution plan/annual work plan](#) in an effective and transparent manner; and for Component 2, make disbursements to the intermediary financial institutions (microfinance institutions, cooperatives, and credit institutions) for extending loans, as well as the corresponding disbursements for providing technical assistance to small-scale producers; (ii) prepare execution reports and financial and physical progress reports for the IDB; (iii) monitor compliance with environmental and social safeguards; and (iv) monitor, track, and evaluate the project. The [project Operating Regulations](#) include beneficiary selection criteria, requirements for participating in the project, considerations of gender and inclusion of young people, disbursements, technology selection, strategic partners, and entities for strengthening services delivery.
- 3.7 **Special contractual conditions precedent to the first disbursement of the financing.** Conditions precedent to the first disbursement of the loan will be fulfillment to the Bank's satisfaction of the following: (i) the borrower, on its own or through the executing agency, will provide, to the Bank's satisfaction, evidence of signature and entry into effect of a loan agreement between the Kingdom of Spain and the borrower for the equivalent of US\$35 million, charged against the resources of FONPRODE, for cofinancing the program that specifies, *inter alia*, that the project will be executed pursuant to the applicable Bank policies and procedures; and (ii) approval and entry into force of the [project Operating Regulations](#) in the terms agreed upon with the Bank, which include, *inter alia*, the environmental and social commitments set out in Annex B of the [environmental and social management report](#). The first special condition precedent ensures availability of all the resources necessary to achieve the project objectives, whereas the second ensures that all of the project's execution agreements and operational aspects will be in place prior to commencing the activities.
- 3.8 **Special contractual conditions for execution.** Disbursement of the resources for Component 2 will be conditional on presentation by the borrower, to the Bank's satisfaction, of evidence that the necessary trusts have been created to administer the funds corresponding to Subcomponents 2.1 and 2.2. This condition is justified on grounds that it establishes the specific regulatory framework that facilitates the structuring and operation of the component.

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<sup>39</sup> For further details on operation of the trusts and monitoring of subloans and guarantees, see the [project Operating Regulations](#).

- 3.9 **Procurement of goods, works, nonconsulting services, and consulting services.** Goods, works, nonconsulting services, and consulting services will be procured in accordance with the Bank's policies (document GN-2349-9 and document GN-2350-9) or those in effect at the time of execution. The systems specified in the Fiduciary Agreements and Requirements (Annex III) will be applied to the operation. The project will also adhere to the provisions of those policies relating to procurement in global credit loans.
- 3.10 **Justification of expenses.** Considering the Financial Management Policy for IDB-financed Projects (document OP-273-12), which provides for the justification of less than 80% of an advance of funds, and owing to the complexity of this operation, the fact that it includes different sources of financing, and since delays could occur in annual budget allocations and modifications, it was agreed that the percentage of an advance requiring justification before a new one could be issued would be 70%.

**B. Summary of arrangements for monitoring results**

- 3.11 **Reports.** The project will be monitored through semiannual reports prepared by the executing agency and presented to the Bank within 60 calendar days after the end of each six-month period. The reports will measure the progress made in achieving the outcome indicators (see Annex II) and the fulfillment of eligibility criteria. The executing agency will compile and retain the information, indicators, and parameters available to prepare the project completion report and any ex post evaluation it and/or the Bank wish to conduct.
- 3.12 **Evaluation.** The borrower and the Bank will conduct a midterm evaluation once 50% of the loan resources have been disbursed. The evaluation will measure the progress made in achieving the project's objectives and outcomes based on the results matrix, in order to identify any relevant corrective actions. The executing agency will provide all the necessary information it has available for the Bank to prepare a project completion report once 95% of the loan has been disbursed.
- 3.13 The final evaluation will consist of an ex post cost/benefit analysis that will seek to replicate the [ex ante analysis](#), to be completed within 30 days of the project closure date, using information from the beneficiaries compiled by INVEST-Honduras during project execution, and consistent with the outcome indicators ([monitoring and evaluation plan](#)).

Development Effectiveness Matrix		
Summary    HO-L1201; HO-L1211		
I. Corporate and Country Priorities		
1. IDB Development Objectives		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Beneficiaries of targeted anti-poverty programs (#)* -Micro / small / medium enterprises financed (#)* -Farmers with improved access to agricultural services and investments (#)*	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2944	(i) reduce poverty; and (ii) expand credit access for agricultural MSMEs
Country Program Results Matrix	GN-2948-2	The intervention is included in the 2019 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
III. Development Outcomes - Evaluability		
		Evaluable
3. Evidence-based Assessment & Solution		
		9.6
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		3.6
3.3 Results Matrix Quality		3.0
4. Ex ante Economic Analysis		
		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		3.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		1.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		
		8.5
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		6.0
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		B.13 (HO-L1201), C (HO-L1211)
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Accounting and Reporting.  Procurement: Information System, Contracting Individual Consultant.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	HO-T1324 Support for the Design of the Comprehensive Rural Development and Productivity Program & HO-T1336 Support to the Design and Monitoring of the Integral Rural Productive Development Program

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The Dry Corridor of Honduras (DCH) is a rural area that has the highest poverty rates in the country (90%) and accounts for 77% of all Honduran poor. Moreover, in the DCH 40% of families have women as head of household and of the total population 80% is comprised of either women or young adults. In the DCH agriculture is the main source of income. Nation-wide, this sector accounts for 12.3% of GDP and is limited by low levels of productivity and a lack of investment. Within the DCH the sector also faces a high vulnerability to climate change including adverse events like droughts. Yields for certain crops like corn and beans are below the national averages (6.0qq/Mz and 8.4 qq/MZ respectively vs. national averages of 23.6qq/Mz and 11.2 qq/Mz). Low productivity is characterized by monoculture, lack of irrigation, and limited links to market, as well as a lack of access to climate and price information. To improve productivity and promote the diversification of crops, access to climate-smart technologies and information, as well as access to new markets there is a need to invest. However, banks do not finance the small producers within the DCH given their risk profile and a lack of guarantees. At the national level, only 7.6% of all credit is directed at the agricultural sector. Credit that is available has terms that are inadequate for crops that require longer amortization periods. In this context, the program has identified 7 priority clusters within the DCH (given the number of potential beneficiaries therein and their level of income) to implement the program. The general objective consists in sustainably increasing the income of rural households within the DCH. The specific objective is the improvement in the productive development of the intervention zone through the provision of technology, technical assistance focused on production and access to finance for the beneficiary population. As part of the program's intervention: (i) non-reimbursable funding for the adoption of climate smart (CS) technologies will be provided; (ii) technical assistance oriented at improving production practices will be provided also fomenting the participation of women and young adults; (iii) financing will be provided at longer terms for small producers eligible in order that they may finance fixed capital and working capital for production, diversification, and access to markets; and (iv) a guarantee fund will be established to lower the risk profile for its beneficiaries; among others. In the long run, it is expected that 15,000 homes will surpass the poverty threshold. Other results include the improvement in yields within the targeted zone for crops like coffee, corn, and cacao. Also, a greater number of hectares will adopt CS technologies, and there will be an increase in the access of new markets or the production of new outputs by agricultural producers in the area. The cost benefit analysis shows the program is of net benefit for society. At closure, a reflexive results analysis will be conducted as well as an ex-post cost benefit analysis.

## RESULTS MATRIX

<b>Project objective:</b>	The project's general objective is to sustainably increase the income of the beneficiary rural households in the Dry Corridor of Honduras (DCH). Its specific objective is to improve productive development in the project's target area by providing technologies, production-related technical assistance, and access to financing for the beneficiary population.
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### EXPECTED IMPACT

Indicator	Unit of Measurement	Baseline 2019	2020	2021	2022	2023	2024	Final target	Means of Verification	Comments
<b><u>Impact 1: Poverty reduction attributable to the project's support</u></b>										
<b>Indicator 1:</b> Number of rural households that have risen above the poverty line during the life of the intervention	Rural household	0	0	0	0	0	15,000	15,000	Monitoring and tracking information processed by INVEST-Honduras	Assumes that 15,000 rural households that are below the poverty line during the life of the project (50% of the project beneficiaries) will overcome poverty and remain above the poverty line.  Using the World Bank's definition, the poverty line is understood as living on less than US\$3.20 per day. Based on that premise, this indicator will measure the number of beneficiaries who, over the life of the project, go from living on less than US\$3.20 per day to living on US\$3.20 or more per day as a result of the project.

EXPECTED OUTCOMES

Indicator	Unit of measurement	Baseline 2019	2020	2021	2022	2023	2024	Final target	Means of verification	Comments
<b>Outcome 1: Adoption of and access to technologies</b>										
<b>Indicator 1:</b> Number of hectares with climate-smart technologies attributable to the project	Hectare	0	0	1,128	2,148	2,364	0	5,640	Monitoring and tracking information processed by INVEST-Honduras	Climate-smart technologies help increase productivity while reducing climate vulnerability. See complete list of technologies included in the <a href="#">project Operating Regulations</a> and <a href="#">Chirinos 2019</a> . The target is based on the average area of producer farms that will receive technical assistance with these technologies in the target area. Values will be updated once baseline data is available.
<b>Indicator 2:</b> Number of beneficiaries with access to new products and/or markets as a result of support from the project	Agricultural producer	0	0	400	1,200	2,400	0	4,000	Monitoring and tracking information processed by INVEST-Honduras	Includes formal and informal markets. New markets refers to buyers with which there have been no prior linkages for a given product. The target is based on data from previous projects in the target area with similar producer characteristics. It is estimated that 40% of beneficiaries had no prior intervention.

Indicator	Unit of measurement	Baseline 2019	2020	2021	2022	2023	2024	Final target	Means of verification	Comments
<b>Indicator 3:</b> Number of hectares under microwatershed management plans attributable to the project	Hectares	0	0	15,000	10,000	0	0	25,000	Monitoring and tracking information processed by INVEST-Honduras	Refers to hectares under approved microwatershed management plans (new and updated plans). Baseline is 0 since under this intervention support will be provided for land that is not currently under a microwatershed management plan. The target is based on the total area of microwatersheds prioritized with investments in irrigation in the target area.
<b>Indicator 4:</b> Number of beneficiaries with access to climate, production, and pricing information attributable to the project's support.	Agricultural producer	0	0	1,000	3,000	1,000	0	5,000	Monitoring and tracking information processed by INVEST-Honduras	Refers to access to this information through platforms or other digital technologies
<b>Outcome 2: Strengthening access of women and young people to markets</b>										
<b>Indicator 1:</b> Number of beneficiary micro, small, and medium-sized enterprises (MSMEs) led by women with access to new products and/or markets as a result of the project	MSME led by a women	0	2	2	2	2	0	8	Monitoring and tracking information processed by INVEST-Honduras	See definition of women's leadership in the <a href="#">project Operating Regulations</a>

Indicator	Unit of measurement	Baseline 2019	2020	2021	2022	2023	2024	Final target	Means of verification	Comments
<b>Indicator 2:</b> Number of ventures led by young people with access to new products and/or markets as a result of support from the project	Venture led by young people	0	2	2	2	2	2	10	Monitoring and tracking information processed by INVEST-Honduras	Refers to individuals between the ages of 18 and 29. For further details see the <a href="#">project Operating Regulations</a> .
<b>Outcome 3: Increase in productive investment.</b>										
<b>Indicator 1:</b> Average loan term granted in the DCH with support from the project	Months	12	12	36	36	36	36	36	Central Bank of Honduras and monitoring and tracking information processed by INVEST-Honduras	The terms of the loans supported will include grace periods for repayment of principal during the period when the investment is not generating income. Those terms will be aligned with potential crop profitability and income generation. The <a href="#">project Operating Regulations</a> and Credit Manual contain further details. The current baseline is 12 months. More precise information will be obtained through the project intermediaries by identifying the existing terms at the time the funds are requested. With the project, it is expected that the terms of the current products will be extended from one year to three years (36 months).

Indicator	Unit of measurement	Baseline 2019	2020	2021	2022	2023	2024	Final target	Means of verification	Comments
<b>Outcome 4: Improvement in agriculture and livestock income and poverty reduction</b>										
<b>Indicator 1:</b> Coffee crop yield before and after the project	Kilogram per hectare (Kg/ha)	TBD	Baseline	Baseline+ (Baseline* 0.52* 0.1)	Baseline+ (Baseline* 0.52* 0.25)	Baseline+ (Baseline* 0.52* 0.5)	Baseline+ (Baseline* 0.52)	Baseline (Baseline * 0.52)	Monitoring and tracking information processed by INVEST-Honduras	An increase is expected in agricultural yields as a result of combining technical assistance and financing. The baseline and targets used for the cost/benefit analysis (CBA) exercise were determined based on the experience of the United States Agency for International Development (USAID)-Acceso project. The baseline determined for this intervention will provide an updated baseline for all yield-related outcome indicators.
<b>Indicator 2:</b> Basic grain crop yield before and after the project	Kg/ha	TBD	Baseline	Baseline+ (Baseline* 0.2* 0.1)	Baseline+ (Baseline* 0.2* 0.25)	Baseline+ (Baseline* 0.2* 0.5)	Baseline+ (Baseline* 0.2)	Baseline+ (Baseline* 0.2)	Monitoring and tracking information processed by INVEST-Honduras	Corn crop yield is used as a proxy
<b>Indicator 3:</b> Vegetable crop yield before and after the project	Kg/ha	TBD	Baseline	Baseline+ (Baseline* 0.75* 0.1)	Baseline+ (Baseline* 0.75* 0.25)	Baseline+ (Baseline* 0.75* 0.5)	Baseline+ (Baseline* 0.75)	Baseline+ (Baseline* 0.75)	Monitoring and tracking information processed by INVEST-Honduras	Carrot crop yield is used as a proxy. The CBA uses a baseline of 0 because, on average, a typical farm does not currently grow vegetables.
<b>Indicator 4:</b> Cocoa crop yield before and after the project	Kg/ha	TBD	Baseline	Baseline+ (Baseline* 0.3* 0.1)	Baseline+ (Baseline* 0.3* 0.25)	Baseline+ (Baseline* 0.3* 0.5)	Baseline+ (Baseline* 0.3)	Baseline+ (Baseline* 0.3)	Monitoring and tracking information processed by INVEST-Honduras	The CBA uses a baseline of 0 because, on average, a typical farm does not currently grow cocoa.

Indicator	Unit of measurement	Baseline 2019	2020	2021	2022	2023	2024	Final target	Means of verification	Comments
<b>Indicator 5:</b> Milk production before and after the intervention	Liters per animal	TBD	Baseline	Baseline+ (Baseline* 1.84* 0.1)	Baseline+ (Baseline* 1.84* 0.25)	Baseline+ (Baseline* 1.84* 0.5)	Baseline+ (Baseline* 1.84)	Baseline+ (Baseline* 1.84)	Monitoring and tracking information processed by INVEST-Honduras	An increase is expected in agriculture and livestock production as a result of combining technical assistance and financing. Targets have been set based on the experience of the USAID-Acceso project.
<b>Indicator 6:</b> Number of beneficiaries below the poverty line	Rural household	TBD	Baseline	Baseline	Baseline	Baseline	Baseline- 15,000	Baseline- 15,000	Monitoring and tracking information processed by INVEST-Honduras	According to World Bank data (2018), 61.9% of the Honduran population lives below the poverty line, to which CEPALSTAT [Databases and statistical publications of the Economic Commission for Latin America and the Caribbean] (2018) adds there is a higher incidence in rural areas, above 65%. Based on the experience of the USAID-Acceso project in the DCH, 90% of the beneficiary population receiving technical assistance in the target area is below the poverty line. Given that the beneficiaries of Component 2 will be credit recipients, a conservative baseline has been adopted, with 15,000 beneficiaries rising above the poverty line by the end of the project. The baseline will be updated based on inputs resulting from the consulting assignment to establish a baseline for this intervention.

# OUTPUTS

Output	Unit of Measurement	Baseline 2019	2020	2021	2022	2023	2024	Final target <sup>1</sup>	Means of Verification	Comments
<b>Component 1: Strengthening of productive development (US\$46 million)</b>										
<b>Subcomponent 1.1 Adoption of climate-smart technologies (US\$20 million)</b>										
<b>Output 1:</b> Number of agricultural producers planning to adopt climate-smart technologies with financing initiated with the support of the project	Agricultural producer	0	2,000	4,000	4,000	0	0	10,000	Monitoring and tracking information processed by INVEST-Honduras	See <a href="#">monitoring and evaluation plan (MEP)</a> .
<b>Milestone 1:</b> Percentage of producer investment plans for adopting climate-smart technologies introduced for women producers	Percentage out of total agricultural producers targeted	0	20	25	25	0	0	25	Monitoring and tracking information processed by INVEST-Honduras	The final target is the maximum value. See <a href="#">MEP</a> .
<b>Milestone 2:</b> Percentage of producer investment plans for adoption of climate-smart technologies introduced for young producers (ages 18 to 29).	Percentage of total agricultural producers targeted	0	15	20	20	0	0	20		

Output	Unit of Measurement	Baseline 2019	2020	2021	2022	2023	2024	Final target <sup>1</sup>	Means of Verification	Comments
<b>Subcomponent 1.2 Comprehensive technical assistance (US\$22.5 million)</b>										
<b>Output 2:</b> Number of agricultural producers receiving technical assistance on production- and market-related issues	Agricultural producer	0	2,000	4,000	2,000	2,000	0	10,000	Monitoring and tracking information processed by INVEST-Honduras	Finances the provision of comprehensive technical assistance to producers and their eligible enterprises, which includes advisory support and training on production- and market-related issues. See <a href="#">MEP</a>
<b>Milestone 1:</b> Percentage of women beneficiaries	Percentage of total agricultural producers targeted	0	20	25	25	25	25	25	Monitoring and tracking information processed by INVEST-Honduras	The final target is the maximum value. See <a href="#">MEP</a>
<b>Milestone 2:</b> Percentage of young beneficiaries (ages 18 to 29)	Percentage of total agricultural producers targeted	0	15	20	20	20	20	20	Monitoring and tracking information processed by INVEST-Honduras	The final target is the maximum value. See <a href="#">MEP</a>
<b>Output 3:</b> Number of agricultural producers receiving technical assistance for managing their credit	Agricultural producer	0	0	1,500	5,000	8,500	0	15,000	Monitoring and tracking information processed by INVEST-Honduras	Technical assistance consists of providing technical support for credit proposals to be submitted for obtaining credit, including the preparation of plans for investment and management of a loan portfolio
<b>Output 4:</b> Number of rural households receiving technical assistance in nutrition	Rural household	0	1,200	2,400	1,200	1,200	0	6,000	Monitoring and tracking information processed by INVEST-Honduras	See <a href="#">MEP</a>

Output	Unit of Measurement	Baseline 2019	2020	2021	2022	2023	2024	Final target <sup>1</sup>	Means of Verification	Comments
<b>Subcomponent 1.3 Microwatershed management and conservation (US\$2 million)</b>										
<b>Output 5:</b> Number of microwatershed management plans approved and implemented with support from the project	Plan	0	0	15	10	0	0	25	Monitoring and tracking information processed by INVEST-Honduras .	See <a href="#">MEP</a>
<b>Output 6:</b> Number of municipal associations supplied with teams for providing technical assistance locally	Community	0	0	2	2	6	0	10	Monitoring and tracking information processed by INVEST-Honduras .	See <a href="#">MEP</a>
<b>Output 7:</b> Number of agreements signed with municipal association for providing microwatershed management services	Agreement	0	0	2	2	6	0	10	Monitoring and tracking information processed by INVEST-Honduras	See <a href="#">MEP</a>
<b>Subcomponent 1.4 Strengthening of services (US\$1.5 million)</b>										
<b>Output 8:</b> Number of information and communication technology (ICT) projects developed and in the process of being implemented	Project	0	0	1	4	0	0	5	Monitoring and tracking information processed by INVEST-Honduras	See <a href="#">MEP</a>
<b>Milestone 1:</b> Number of new ICTs developed and in the process of being implemented	ICTs	0	0	0	3	0	0	3	Monitoring and tracking information processed by INVEST-Honduras	See <a href="#">MEP</a>

Output	Unit of Measurement	Baseline 2019	2020	2021	2022	2023	2024	Final target <sup>1</sup>	Means of Verification	Comments
<b>Output 9:</b> Number of programs for training and promoting the use of ICTs developed and in the process of implementation.	Program	0	1	0	0	0	0	1	Monitoring and tracking information processed by INVEST-Honduras	See <a href="#">MEP</a> .
<b>Output 10:</b> Number of agreements signed for providing technical assistance	Agreement	0	0	1	2	0	0	3	Monitoring and tracking information processed by INVEST-Honduras	See <a href="#">MEP</a> .
<b>Output 11:</b> Number of projects developed for generation of and/or adaptation to climate-smart technology	Project	0	0	0	3	4	0	7	Monitoring and tracking information processed by INVEST-Honduras	See <a href="#">MEP</a> .
<b><u>Component 2: Access to financing (US\$34.5 million)</u></b>										
<b><u>Subcomponent 2.1 Access to credit (US\$29.5 million)</u></b>										
<b>Output 1:</b> Amount of credits loans made with support from the project	US\$ millions	0	0	4	7	9	9.5	29.5	Monitoring and tracking information processed by INVEST-Honduras	See <a href="#">MEP</a> .
<b><u>Subcomponent 2.2 Access to guarantees (US\$5 million)</u></b>										
<b>Output 2:</b> Amount of guarantees granted with resources from the project.	US\$ millions	0	0	1	1	2	1	5	Monitoring and tracking information processed by INVEST-Honduras	See <a href="#">MEP</a> .

Output	Unit of Measurement	Baseline 2019	2020	2021	2022	2023	2024	Final target <sup>1</sup>	Means of Verification	Comments
<b>Component 3: Monitoring and evaluation system (US\$3 million)</b>										
<b>Output 1:</b> Development and implementation of a monitoring system for the DCH using georeferencing and big data technologies	System undergoing implementation	0	0	0	0	1	0	1	Monitoring and tracking information processed by INVEST-Honduras	The system is considered to be in the implementation phase when it is operational and recording the monitoring information related to the intervention. The system is already capable of collecting the necessary information for carrying out this intervention, but it is expected to improve its connectivity with other monitoring platforms and its experience with transferring information gathered in the field.
<b>Output 2:</b> Behavior economics study completed	Final study approved by the project team	0	0	0	1	0	0	1	Monitoring and tracking information processed by INVEST-Honduras	See <a href="#">MEP</a>

## FIDUCIARY AGREEMENTS AND REQUIREMENT

<b>Country</b>	Honduras
<b>Project number:</b>	HO-L1201/HO-L1211
<b>Name:</b>	Comprehensive Rural Development and Productivity Project
<b>Executing agency:</b>	Honduras Strategic Investment (INVEST-Honduras)
<b>Fiduciary team:</b>	Christian Contín (Financial Management, FMP/CHO); María Cecilia Del Puerto Correa (Procurement, FMP/CHO)

### I. EXECUTIVE SUMMARY

- 1.1 Recent diagnostic assessments of financial management in Honduras reflect the significant progress it has made towards adopting international standards and good practices with the aim of modernizing its institutional framework and integrating the government systems of accounting, budget, and cash management into the Integrated Financial Management System (SIAFI). A 2010 diagnostic assessment of the Honduran public procurement system identified strengths in terms of aligning the country's legal framework with international best practices. Honduras still faces challenges, however, that prevent the Bank from using the Honduran country system in all its operations.
- 1.2 In March 2019, the Bank's Board of Executive Directors approved the use of the limited bidding and framework agreement subsystems, through the electronic catalog, which are in the national procurement system of Honduras, known as Régimen de Contratación Pública [public procurement system]. These processes are applicable to Bank-financed projects that do not exceed the shopping threshold for Honduras.
- 1.3 The project's total cost is US\$90 million. It will be financed through the following instruments: (i) a global credit loan (GCL) from the IDB for US\$21.1 million (US\$7.385 million in Ordinary Capital and US\$13.715 million in concessional Ordinary Capital) with 13.4 million in cofinancing from the Development Promotion Fund (FONPRODE),<sup>1</sup> which will finance Components 1, 2, and 3, to include activities associated with production-related technical assistance, monitoring system development, and administration expenses; and (ii) a specific investment loan (SIL) from the IDB for US\$33.9 million (US\$11.865 million from the Ordinary Capital and US\$22.035 million from concessionary Ordinary Capital) with US\$21.6 million in cofinancing from FONPRODE, which will address Component 2, to include activities aimed at extending credit and guarantees to the project's beneficiaries. The project was structured this way to differentiate the scope and

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<sup>1</sup> As negotiated with FONPRODE, the Bank will charge that fund a service fee to cover the project's administration costs, in accordance with the Cofinancing Framework Agreement. Approval of the cofinancing is expected in December 2019.

nature of each component and to ensure orderly monitoring by financing instrument. The disbursement period will be five years.

## II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY AND EXECUTION MECHANISM

- 2.1 The borrower will be the Republic of Honduras. The project's executing agency will be INVEST-Honduras. INVEST-Honduras is a management agency (planning, administration, and implementation) of strategic projects and programs for the country's development. It is attached to the Secretariat of General Coordination of the Government of Honduras (SCGG). INVEST-Honduras was founded in 2005 as the agency tasked with managing grant funds from the United States Millennium Challenge Corporation. It has served as a national and international model for time and budget management, as well as the scope of its projects, acting with efficiency and transparency to strengthen the country's road infrastructure, and providing assistance and incentives for rural development in regions with productive potential. INVEST-Honduras is executing productive development projects with multiple donors and has amassed significant experience. Accordingly, its structure has been adapted to ensure proper execution.
- 2.2 As the executing agency and fiduciary agent for the project's resources, INVEST-Honduras will be responsible for efficiently and transparently: (i) providing the financial resources for the works and services described in the annual work plan and, with regard to Component 2, making disbursements to financial institutions (microfinance institutions, cooperatives, and credit institutions) that will in turn extend loans, and making the corresponding disbursements for technical assistance to small-scale producers; (ii) preparing execution reports as well as financial and physical progress reports for the Bank; (iii) monitoring compliance with environmental and social safeguards; and (iv) monitoring, tracking, and evaluating the project.
- 2.3 Consulting services were engaged to strengthen INVEST-Honduras processes; however, the evaluation methodology used was not the Institutional Capacity Assessment System (ICAS).
- 2.4 The Honduran government has requested that INVEST-Honduras have fiduciary independence in executing the project's components and subcomponents.
- 2.5 The country financial management systems or their equivalents to be used are:
  - a. **Budget.** Budget Act and its general provisions.
  - b. **Cash management.** A special account will be opened in the Central Bank of Honduras that will form part of the Treasury Single Account.
  - c. **Accounting and financial reports.** The executing agency will process payments through SIAFI. With regard to procurement processes, the HonduCompras procurement information system will be used to publish calls for bids. For the procurement of goods, works, and services for amounts below the shopping threshold, the limited bidding and framework agreement country subsystems, through the electronic catalog, will apply. In all other cases, the Bank's procurement policies will apply.

### III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 A medium-level procurement risk was identified, specifically related to the concentration of resources in a limited number of contracts. Mitigating factors include: (i) the project will be executed in strict compliance with the Bank's procurement policies as established in the loan contract and the project Operating Regulations, including application of the necessary internal controls; (ii) INVEST-Honduras will apply its extensive and proven experience, management capacity, and installed control capacity for process management; and (iii) appointment by INVEST-Honduras of procurement specialists permanently assigned to the project.

### IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 **Exchange rate for accounting purposes.** The exchange rate for accounting purposes will be the rate in effect on the day that the executing agency makes the corresponding payments.
- 4.2 **Justification of expenses.** Considering the Financial Management Policy for IDB-financed Projects (document OP-273-12), which provides for the justification of less than 80% of an advance of funds, and owing to the complexity of this operation, the fact that it includes different sources of financing, and since delays could occur in annual budget allocations and modifications, it was agreed that the percentage of an advance requiring justification before a new one could be issued would be 70%.
- 4.3 **Financial statements and audit reports.** The executing agency will submit the project's audited financial statements annually, as required by the Bank. It was also agreed that the audited financial statements will be consolidated with the portion cofinanced by FONPRODE, but segregating the costs corresponding to each lender.

### V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The executing agency will be responsible for the processes of selection, supervision, and receipt of goods, works, and services, which will be procured for the project in accordance with the Bank's procurement policies (documents GN-2349-9 and GN-2350-9) and the provisions of the operation's procurement plan.
- 5.2 **Procurement of works, goods, and nonconsulting services.** Contracts for project works, goods, and nonconsulting services<sup>2</sup> that are subject to international competitive bidding (ICB) will be procured using the standard bidding documents issued by the Bank. National competitive bidding (NCB) processes will use the NCB documents agreed upon with the Bank. These will be published on the website of the Public Procurement Regulatory Office (ONCAE) ([HondurCompras](#)).

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<sup>2</sup> Policies for the Procurement of Goods and Works financed by the Inter-American Development Bank (document [GN-2349-9](#)), paragraph 1.1: Nonconsulting services are treated as goods.

**5.3 Selection of individual consultants.** Procurement processes for individual consultants may be announced through local or international advertising to develop a shortlist of qualified individuals if no known qualified consultants are available for invitation. Consultants hired to assist the executing agency during the operation may be engaged for the entire execution period with the no objection to the competitive initial-selection process, without the need to obtain a no objection for each budget year even if more than one contract is signed in a budget year.

**5.4 Thresholds.** The thresholds for ICB and the shortlist of international consultants will be posted to the Bank's [procurement portal](#). Under these thresholds, the selection method will depend on the complexity and nature of the procurement process and will be specified in the procurement plan approved by the Bank.

**5.5 Main procurement items.** See below:

**Table 1. Main procurement items**

Activity	Type of process	Estimated date	Estimated amount (US\$)
<b>Consulting firms<sup>3</sup></b>			
Implementation	QCBS	2020 (first half)	43,000,000
Data compilation for project final evaluation	QCBS	2023 (second half)	1,000,000
Turnkey monitoring system	QCBS	2021 (first half)	1,325,000
<b>Goods and nonconsulting services</b>			
Credit management entity	ICB	2019 (second half)	29,500,000
Guarantee management entity	ICB	2023 (second half)	5,000,000

\* To access the procurement plan for the first 18 months, click [here](#).

**5.6 Procurement supervision:**

- Based on the fiduciary risk analysis of procurement, the method of supervision will be a combination of ex post and ex ante review, as established in the procurement plan.
- Any single-source selection of consulting services, whether provided by consulting firms or individual consultants, and any direct procurement of nonconsulting services, goods, or works will be subject to ex ante supervision by the Bank, regardless of the contract amount. Any re-contracting or contract extensions for an individual consultant will require no further no objection once the first contract resulting from a competitive process has received a no objection.

**5.7 Other special procedures.** The Bank may, at its discretion, change the procurement supervision method on the basis of experience in execution and any updates to the institutional capacity assessment.

<sup>3</sup> In consulting services, this refers to the short list being comprised of firms with a wide geographic spread (document [GN-2350-9](#), paragraph 2.6).

- 5.8 **Records and files.** The executing agency will maintain the files and original supporting documentation for procurement processes, as established by the Bank.

## **VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS**

- 6.1 **Programming and budget.** The budgetary allocation of project resources will be reviewed on an annual basis.
- 6.2 **Accounting and information systems.** The SIAFI module will be used. Honduras is in the process of implementing the International Public Sector Accounting Standards (IPSAS) based on the provisions of Article 96, paragraph 1 of the Budget Act, which stipulates that accounting manuals and charts of accounts must be aligned with the aforementioned standards.
- 6.3 **Disbursements and cash flow.** Disbursements will be primarily in the form of advances of funds, supported by financial programming for a period not to exceed six months. The executing agency will have an exclusive bank account for project resources (a special account at the Central Bank of Honduras in the program's name, and funds executed by the Treasury Single Account with lines in dollars and local currency). Financial planning and renderings of accounts will be performed in a consistent manner throughout the project.
- 6.4 **Internal control and internal auditing.** INVEST-Honduras will carry out its fiduciary duties in accordance with the Bank's policies for the operations it finances and pursuant to the current project Operating Regulations.
- 6.5 **External audit.** An independent audit firm eligible for Bank projects will be contracted.
- 6.6 **Financial supervision plan.** The Bank will supervise the financial management of the project, monitoring the executing agency's efforts to address any observations and findings in external audits.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/19

Honduras. Loan \_\_\_\_/BL- HO to the Republic of Honduras  
Comprehensive Rural Development and Productivity Project

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Honduras, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Comprehensive Rural Development and Productivity Project. Such financing will be chargeable to the Bank's Ordinary Capital (OC) resources in the following manner: (i) up to the amount of US\$22,035,000, subject to concessional financial terms and conditions ("Concessional OC"); and (ii) up to the amount of US\$11,865,000, subject to financial terms and conditions applicable to loan operations financed from the Bank's regular program of OC resources ("Regular OC"), as indicated in the Project Summary of the Loan Proposal, and subject to the Special Contractual Conditions of said Project Summary.

(Adopted on \_\_\_\_ 2019)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/19

Honduras. Loan \_\_\_\_/BL- HO to the Republic of Honduras  
Comprehensive Rural Development and Productivity Project

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Honduras, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Comprehensive Rural Development and Productivity Project. Such financing will be chargeable to the Bank's Ordinary Capital (OC) resources in the following manner: (i) up to the amount of US\$13,715,000, subject to concessional financial terms and conditions ("Concessional OC"); and (ii) up to the amount of US\$7,385,000, subject to financial terms and conditions applicable to loan operations financed from the Bank's regular program of OC resources ("Regular OC"), as indicated in the Project Summary of the Loan Proposal, and subject to the Special Contractual Conditions of said Project Summary.

(Adopted on \_\_\_\_\_ 2019)