

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HONDURAS

SOCIAL ENTREPRENEURSHIP PROGRAM

EXECUTIVE SUMMARY

ECONOMIC EMPOWERMENT OF WOMEN LIVING WITH HIV/AIDS IN BAHÍA DE TELA

(HO-S1009)

This document was prepared by the project team consisting of: Olga Patricia Falck (COF/CHO); Bernadete Buchsbaum (LEG/OPR); Julio Guity Guevara (LEG/LEG); Adriana Quiñones (SDS/GED); Ely Melendez (consultant); Jessica Villanueva Ruiz (SDS/MSM); and Alejandro Escobar (SDS/MSM), Project Team Leader.

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ABBREVIATIONS

CESI	Committee on Environment and Social Impact
ENMUNEH	Enlace de Mujeres Negras de Honduras [Honduran Black Women's Network]
IDB	Inter-American Development Bank
NGO	Nongovernmental organization
ODEF	Organización de Desarrollo Empresarial Femenino [Women's Entrepreneurial Development Organization]
PAG	Proyecto Aldea Global [Global Village Project]
PLWHA	People living with HIV/AIDS
UNAIDS	Joint United Nations Programme on HIV/AIDS
USAID	United States Agency for International Development
WLWHA	Women living with HIV/AIDS

I. BASIC PROJECT DATA

A. Executing agencies

- 1.1 Organización de Desarrollo Empresarial Femenino [Women's Entrepreneurial Development Organization] (ODEF) and ODEF Financiera

B. Amount and source of funding

	<u>IDB US\$</u>	<u>ODEF US\$</u>	<u>Total US\$</u>
Nonreimbursable financing:	100,000	150,000	250,000
Technical cooperation funding:	<u>200,000</u>	<u>70,000</u>	<u>270,000</u>
Total:	300,000	220,000	520,000

Nonreimbursable financing source:	Gender Mainstreaming Trust Fund (GMF) - SDS/GED
Technical cooperation funding source:	Net income of the Fund for Special Operations (FSO)

C. Terms and conditions

Amortization period:	N.A.
Grace period:	N.A.
Interest rate:	N.A.
Currency:	U.S. dollars
Execution period:	36 months
Disbursement period:	42 months

D. Statement of no objection

- 1.2 The Government of Honduras issued its no objection to the Bank's financing of this project in official letter CHO/3508/2007 of 26 June 2007.

E. The problem to be addressed

- 1.3 **HIV/AIDS in Honduras.** According to the Joint United Nations Programme on HIV/AIDS (UNAIDS), Honduras is the Central American country most affected by the HIV/AIDS epidemic, with 22,366 reported cases of people living with HIV/AIDS (PLWHA)¹ as of October 2005. Most of these people are unaware of their serological status. Eighty-five percent of PLWHA are in the economically productive age group (15-49), and 51% are women. Poverty conditions, unequal

¹ PLWHA are defined as "infected" people living with HIV and AIDS, and WLWHA as women living with HIV and AIDS, without distinction as to whether they have developed the disease or are only carriers. Since the term "infected" increases stigma and discrimination, this document will refer to the beneficiary population as "people living with HIV/AIDS and affected people". People "affected" by the virus can be surviving relatives, or relatives and other people who live with PLWHA but who are economically active, and whom this technical cooperation program is also intended to benefit because they are an essential part of the support network for PLWHA.

- relationships, and violence, in addition to their biological condition, are factors that make women more vulnerable. Each year, 220,000 women become pregnant; 1.8% of them are estimated to be living with HIV.
- 1.4 The analysis conducted by the local UNAIDS office in Honduras confirms that one of the most difficult problems for PLWHA to overcome is attaining economic independence through access to decent jobs. The stigma² associated with HIV/AIDS and poor knowledge of the disease among the general population make it difficult to obtain employment and prevent the small enterprises established by PLWHA from becoming sustainable. In addition, the lack of access to productive opportunities on the part of people living with HIV/AIDS is exacerbated by poor knowledge of their economic, social, and political rights and how those rights are applied.
 - 1.5 **HIV/AIDS in Tela.** According to Ministry of Health reports, the highest incidence of HIV infection in Honduras is concentrated in Tegucigalpa and the San Pedro Sula area, including Tela. The socioeconomic impact of the pandemic is drastically evident among women and children. Since 1999, in fact, AIDS has become the leading cause of death among women of childbearing age in Honduras, and has affected the Garifuna population.³ According to the National Survey of Epidemiology and Family Health (ENFES, 2001), in 1999, the incidence of HIV/AIDS among people of African descent was nearly three times higher than in the general Honduran population.
 - 1.6 In its Title VI, Chapter I, on Rights and Obligations of People Living With HIV/AIDS, the Special Law on HIV/AIDS (Decree 147/99) explicitly prohibits discriminating against PLWHA in the labor market. However, in areas with a high incidence of the disease, and because of close-knit social and cultural structures such as those found in Bahía de Tela, this social proximity becomes a weakness that cuts off access to jobs for PLWHA, because they are carriers of the disease.
 - 1.7 There are some experiences in Honduras of comprehensive support for populations living with HIV/AIDS; although they operate in an isolated manner, they offer good examples and practices that are important to recognize. First, there is the experience of World Vision in Tegucigalpa⁴ (the only experience that has been documented), where the project “Services to adolescent women and mothers living and coping with HIV and AIDS” incorporates microcredit as a means of addressing the vulnerability and poverty affecting PLWHA. With financing of US\$100,000,

² A condition, attribute, or behavior, such that the person conveying it is included in a social category whose members evoke a negative response and who are seen as culturally unacceptable.

³ José Cuesta, “SIDA, crecimiento económico y la iniciativa HIPC en Honduras” [AIDS, economic growth, and the HIPC Initiative in Honduras], United Nations Population Fund.

⁴ World Vision Honduras, “Integrando el enfoque micro-empresarial en la respuesta al VIH y SIDA” [Incorporating a microentrepreneurial approach in the response to HIV and AIDS]. Case study: Project titled “Atención a mujeres adolescentes y mujeres madres viviendo y conviviendo con VIH y SIDA” [Services to adolescent women and mothers living and coping with HIV and AIDS], August 2006.

- this pilot project supports 150 families in the Villa Franca neighborhood through microloans, utilizing the village banking methodology. This initiative's most important feature is the formation of self-help groups, which address subjects including comprehensive care, stigmatization, discrimination, monitoring of adherence to retroviral regimens, and the effort to link families or close friends to the productive activities of those living with HIV/AIDS. This activity has resulted in increased acceptance of these people within the community and an increase in its social capital.
- 1.8 Secondly, there is the experience of the Proyecto Aldea Global [Global Village Project] (PAG) Community Health and Microcredit Program, execution of which is centered in the community of Siguatepeque. The program serves 25 families of PLWHA through microloans (individual loans guaranteed by a relative or friend), and provides services to self-help groups and training to improve the beneficiaries' nutrition and general quality of life. This program's methodology places emphasis on women as the sole possible beneficiaries of the loans. It also emphasizes monitoring, through home visits, for ongoing supervision of the production-related activity and the recruitment of volunteers, who take charge of monitoring the health of PLWHA.
 - 1.9 Lastly, there is the experience of the Organización de Desarrollo Empresarial Femenino [Women's Entrepreneurial Development Organization] (ODEF), a nongovernmental organization (NGO) based in San Pedro Sula that has been offering financial and business development services to women for more than 20 years. ODEF began offering technical assistance, training, community development, health, and education services in 1985. In 1989 it formed a rural lending program in Honduras, using the village banking methodology. With the growth of these operations, ODEF in 2005 formed a separate legal entity specializing in microfinance, ODEF Financiera. By the end of 2006, ODEF Financiera already had 17,000 clients and a portfolio of US\$14 million. ODEF NGO continues its business technical assistance activities, through which it is beginning to provide support to women living with HIV/AIDS (WLWHA). In this area, ODEF trains WLWHA in the areas of production, marketing, and economic empowerment, bringing them to the point where they can subsequently apply for loans, but without creating a "special program" for them. In this sense, its method of working with WLWHA is geared more to integration, so that this segment can share equally in the services offered by the organization, than to creating a "special" program.
 - 1.10 While the results of these experiences are still limited in scope, lessons have been learned and opportunities observed, as follows: (i) it is important to help the beneficiaries to have a very clear understanding of how they are going to invest their loan and of the demand for the product that they expect to produce or market; (ii) monitoring must be carried out through home visits to guarantee satisfactory loan execution; (iii) self-help groups guarantee social and economic sustainability; (iv) there are proven advantages to investing in home improvement in the second and third lending cycles, since transforming the physical environment has an

- important impact on the quality of life and therefore on the affected and infected population's management of the disease; (v) it is important to identify the beneficiaries through methodologies that do not increase their stigmatization; (vi) projects must seek to diversify the beneficiaries' economic activities to achieve greater economic empowerment; (vii) staff in charge of the program must be properly trained to be able to address the economic, social, and health challenges in a comprehensive manner; and (viii) a strong partnership must be built among the participating organizations, both those granting microcredit and those carrying out training activities.
- 1.11 Despite the existence of these pilot projects in Tegucigalpa, the Siguatepeque area, and San Pedro, **in Bahía de Tela there are no entities that combine promoting rights to combat discrimination and stigmatization with business and economic development in an effective manner.** In responding to the epidemic, many organizations have placed priority on access to drugs and prevention, underestimating women's other needs, particularly as heads of household. Many WLWHA are forced to launch microenterprises in order to generate the income that enables them to pay for treatment and drugs. However, there are no programs or entities to support them in a more comprehensive manner, by incorporating aspects of business development and credit culture in the context of their disease.
 - 1.12 The Enlace de Mujeres Negras de Honduras [Honduran Black Women's Network] (ENMUNEH), an NGO working in the Bahía de Tela area, has several years' experience in working with vulnerable people on the subject of rights and education and forming self-help groups whose members receive education in disease management (medical and emotional). However, it has not succeeded in creating sustainable opportunities for women to develop their entrepreneurial capabilities, which would afford them a higher level of economic self-sufficiency.
 - 1.13 **There are no microcredit programs that serve the needs of women living with HIV/AIDS in an effective manner, particularly in marginalized communities such as those inhabited by the Garifuna population.** In some communities there are women who, while living with HIV/AIDS, maintain their productive capacity, are physically active, and have developed some microenterprises. Many of them produce food or handicrafts, or offer services in the city of Tela. However, they have no access to credit to expand their operations or improve their processes. Moreover, in addition to women living with HIV/AIDS, there are men who also remain physically active and maintain their productive capacity, and other related groups, such as relatives living with these women and men, surviving spouses who are not infected, and other individuals in the community who form a social support network. Many of these PLWHA and affected persons also carry on economic activities, own microenterprises, and have the borrowing capacity to improve their activities. Persons affected by the disease are included as program beneficiaries because they are the most important support network for PLWHA. In many cases they shoulder the responsibility of caring and economically providing for the surviving children or grandchildren of a person who dies of HIV/AIDS.

- 1.14 While microcredit institutions do not discriminate against this segment of the population, they recognize that they lack sensitive methods of communication and dissemination and appropriate lending methodologies. The institutions also acknowledge that the disease raises women's risk profile, and that agency staff and loan officers are not trained to evaluate this type of risk. In areas of high incidence of the disease, WLWHA have a "self-stigmatization" problem, and they do not approach lending programs for fear of being rejected or exposed, making communication with them even more difficult. In the case of organizations such as World Vision, ODEF, and PAG, which have microcredit initiatives tailored to PLWHA, these operate in a limited manner and without an appropriate methodology. The experience of other countries⁵ indicates that it is necessary to customize financial products to ensure greater flexibility of loan terms and conditions, for instance, with regard to frequency of payments, guarantor and compulsory savings requirements, and incorporation of insurance mechanisms.
- 1.15 **There are no institutions conveying and promoting good practices in business development and microcredit for WLWHA.** Most of the programs and organizations that have initiatives for WLWHA operate in an isolated manner and have not been able to harness the advantages of forming partnerships or developing programs that combine entrepreneurship with promoting rights for WLWHA. In the case of PLWHA, there is a need for a comprehensive microcredit program that has instruments for solving the problem of access (owing to stigmatization and risk) and, at the same time, has the methodology to measure repayment capacity and the competitiveness of its products in terms of cost.
- 1.16 **Beneficiaries:** By providing business microcredit, the project will benefit some 390 people, of whom 130 are people living with HIV/AIDS and 260 are people affected by the disease. These people reside in the following Bahía de Tela communities: San Juan, Triunfo de la Cruz, Encenada, Tornabé, and the city of Tela. In addition, some 780 people will receive training in business development, the rights of people affected by HIV/AIDS, and credit culture. People in these communities make their living from handicrafts, fishing, agriculture, and small service and productive enterprises. Many of these people also receive income from remittances and, in some cases, remittances constitute their only substantial cash income. The average income of people in this region is US\$1,500 per year.⁶

⁵ Microfinance institutions financed by USAID and Dutch cooperation, mainly in Africa, such as FINCA Uganda, SEF, and Marang in South Africa, have customized their existing products and developed new ones to provide their "vulnerable clients" with greater flexibility, including changes in payment schedules and flexible access to compulsory savings. Among other benefits, this enables the clients to rest between lending cycles. The offer of flexible and convenient savings products has also proved to be important in enabling the clients to cope with unanticipated expenses related to assisting their families and buying their medicines.

⁶ A breakdown of the area's socioeconomic characteristics is provided in Annex III.

II. THE PROJECT

A. Objectives

- 2.1 The project's main objective is to improve the living conditions and capacity of women living with HIV/AIDS to exercise their rights as citizens by providing training and financial services in the Bahía de Tela area. In turn, the project seeks to strengthen the executing agency's capacity to provide business development and loan services to WLWHA through mechanisms and methodologies adapted to the needs of the target population.
- 2.2 The project's specific objectives are to: (i) strengthen the business capabilities of WLWHA so that they can develop sustainable economic activities enabling them to cope with HIV/AIDS; (ii) increase the knowledge of WLWHA and their affected families regarding economic, political, and social rights and how to legally protect themselves against discrimination and stigmatization; and (iii) increase access by WLWHA to microcredit as part of a comprehensive program of services, through a suitable financial product offered by ODEF Financiera.

B. Description

- 2.3 To meet these objectives, the Bank will grant nonreimbursable financing of US\$100,000 to ODEF Financiera, which will be utilized to expand its loan portfolio to WLWHA in Bahía de Tela and other high-incidence areas, and nonreimbursable technical-cooperation funding in the amount of US\$200,000, which will be managed by ODEF NGO, to implement business development service modules, specialized lending methodologies for vulnerable groups, and project monitoring. ODEF NGO will be responsible for a local counterpart cash contribution of around US\$200,000, consisting of additional credit financing (US\$150,000) and technical-cooperation funding (US\$70,000).
- 2.4 Project resources will be used to develop more appropriate mechanisms to measure the risks inherent in this segment of the population, and funds will be provided for specialized consulting services aimed at revising credit methodologies and designing new and appropriate financial products. In this connection, an analysis is expected to be conducted of the financial services currently offered, comparing them against the living conditions, market, and economic viability of the WLWHA and PLWHA segment, to identify more precisely the features of the products to be implemented. The analysis should also establish clearly defined eligibility criteria for access by these beneficiaries to loan resources. This technical support will be accompanied by nonreimbursable financing that will enable ODEF to expand its operations to low-income families of people living with HIV/AIDS or affected by the disease, thereby reaching communities not currently served, mainly in Bahía de Tela.
- 2.5 The project will promote more comprehensive services for women by developing training and technical assistance units that reflect proven educational methodologies targeted to these vulnerable sectors. This will enable women's microenterprises to grow to the point where the women can subsequently have access to financing from

- ODEF Financiera. The training and technical assistance offered by ODEF will be carried out in coordination with ENMUNEH, a local NGO that specializes in forming self-help groups on development and the exercise of political, economic, and social rights for vulnerable people and people with AIDS. This training will help women to identify activities with greater potential for growth (and less potential for rejection), given their illness, as well as better ways of marketing their products. In turn, ODEF will enhance women's knowledge of their rights and create methodologies to enable them to exercise those rights on the basis of economic activity as it relates to the market and society.⁷
- 2.6 Lastly, the project will allocate technical cooperation funds to systematize and deepen the good practices stemming from the project, so that other microfinance institutions can also implement programs to provide loan services to vulnerable groups. To this end, the project is expected to work closely with one or more networks of microfinance institutions⁸ to instill in them methodologies and good practices that can be replicated in other organizations.
- 2.7 The **nonreimbursable financing component** will finance the expansion of microcredit in the Bahía de Tela area with a special focus on WLWHA and affected people. Up to now, ODEF Financiera has carried out loan operations with WLWHA and PLWHA utilizing village bank, mutual-assistance group, and individual loan methodologies. The technical cooperation funds will be used to evaluate ODEF's methodologies and products so that the necessary adjustments and improvements can be made to serve the group's needs. The Bank's financing will be nonreimbursable, and this is justified by the fact that it is geared to providing credit to a highly vulnerable social group (women living with HIV/AIDS) which, despite its status, is seeking viable self-managed credit options. ODEF will grant loans to WLWHA and PLWHA only after the beneficiaries have received the business training offered by the project. The best practices and experience in managing credit to this vulnerable group also indicate the importance of portfolio diversification in the region where WLWHA and PLWHA live. For this reason, ODEF Financiera will expand its loan portfolio in the area to PLWHA, other affected people, and uninfected people, using its own contribution to provide microcredit under existing conditions and methodologies.
- 2.8 The **technical cooperation component** will be designed to improve the business capabilities of WLWHA and PLWHA so that they can subsequently have steady access to microcredit. It will also be geared to raising awareness of economic, political, and social rights on the part of WLWHA and PLWHA so that they can legally protect themselves against discrimination and stigmatization. Lastly, the technical cooperation resources are expected to enable ODEF to improve its lending systems in order to provide better services to PLWHA. The project will also finance

⁷ This mechanism for collaboration between a microfinance institution and local technical assistance agencies is recognized as a good practice in the literature on microfinance and AIDS (CGAP Donor Brief 14).

⁸ Among the most important ones in Honduras are the Red de Instituciones de Microfinanzas de Honduras [Honduran Network of Microfinance Institutions] (REDMICROH) and the Katalysis network.

exchange travel, internships, and organized visits by WLWHA and PLWHA to other rural areas in Honduras where there are successful examples of women microentrepreneurs whose businesses have grown through successive loans and the improvement of their products. Lastly, market studies will be conducted to analyze the best production and business choices for WLWHA and PLWHA.

- 2.9 To achieve these objectives, nonreimbursable technical-cooperation resources (US\$200,000 from the Bank and US\$50,000 from the counterpart) will be utilized for the following three general activities: (i) comprehensive socioeconomic services for WLWHA and PLWHA; (ii) strengthening of the executing agency so that its methodologies and systems are adapted to the needs of WLWHA and PLWHA; and (iii) project evaluation, monitoring, and management.

C. Sustainability and financial analysis results

- 2.10 Project sustainability exists at two levels. First, sustainability and social impact can be observed and measured through: (i) integration of WLWHA in the economic life of their communities; (ii) improved living conditions for WLWHA and PLWHA; and (iii) increased use of legal services and exercise of political rights by WLWHA.
- 2.11 Secondly, the project's financial sustainability will be achieved to the extent that: (i) ODEF is able to continue providing services to WLWHA and PLWHA once the project is completed. To this end, principal plus interest earned on the Bank-financed portfolio will be reinvested in financial services for this vulnerable population; (ii) the project achieves a positive private and social return; and (iii) the beneficiaries realize increased income from their business activities that have been strengthened by the project. In addition, part of the interest that may be generated by the loan portfolio using Bank resources will be allocated to cover risk, provisions, and administrative expenses, and the remainder will be allocated to cover the costs of the business development services provided to WLWHA. ODEF is a financially sound and stable institution. Between 2005 and 2006 it invested in ODEF Financiera, transferring its loan portfolio, equivalent to US\$2.2 million, to the latter. This reduced ODEF's assets to US\$4.3 million and its total liabilities to US\$800,000, of which reserves and depreciation allowances represent 75% and accounts payable, the remaining 25%. The organization's income derives mainly from grants to execute projects, the income generated by a training center ODEF manages, and training services offered to the Financiera's clients and target population. It should be noted that the lending spread goes to technical assistance for the beneficiaries.
- 2.12 For its part, ODEF Financiera has a microcredit portfolio of US\$14 million, assets of US\$18 million, and equity of US\$3.7 million. In fiscal year 2006 it generated income worth US\$4.1 million and closed out the year with profits of US\$1 million. The loan portfolio currently has a past-due ratio of 2.39% and provisions in the amount of US\$388,000. The Financiera's earnings are reinvested in the institution and the NGO's activities. ODEF Financiera received prior financing from the Bank in 2005, which it executed with satisfactory results.
- 2.13 ODEF Financiera's office in Tela has approximately 500 clients and a portfolio of US\$400,000, after being in operation for only two years. Eighty percent of the

clients are women, and 70% of the portfolio is rural. The project's financial projections, contained in Annex II, Appendix 2, show the outcome of project implementation in the area, serving the WLWHA and PLWHA sector and microentrepreneurs in general. It is anticipated that the Tela office will remain profitable and that its portfolio will grow to US\$853,000 in three years. Even after Bank financing ends, ODEF is expected to use financial resources from the Bank to expand its credit to WLWHA and PLWHA in other areas of the country.

D. Rationale for nonreimbursable financing

- 2.14 This operation poses no credit risk to the Bank, given that the financing being proposed is nonreimbursable. It is worth mentioning, however, that ODEF Financiera has attained a level of operations, equity, and profitability that enables it to generate surpluses on an ongoing basis, and that Bank financing will be used exclusively to expand this pilot project among the target group of WLWHA and PLWHA in the Tela area. Nonreimbursable financing is justified by the fact that the women and other people who will benefit from the loans are a vulnerable group with a higher risk than is normal for any microentrepreneur. Even so, the financial institution will earmark own funds for the target group, once the methodology and appropriate products have been identified.

E. Expected outcomes and capture of benefits

- 2.15 By the end of the three-year project: (i) at least 780 people living with HIV/AIDS and affected people will be trained in entrepreneurship; (ii) at least 50% of the people trained will have an ongoing business activity; (iii) at least 780 PLWHA or their relatives will be trained in economic, political, and social rights and how to legally protect themselves against discrimination and stigmatization; (iv) at least 390 PLWHA will have access to microcredit with sustainable services; (v) ODEF will have a business development services module geared to vulnerable groups and WLWHA; and (vi) ODEF Financiera will have a sustainable facility for PLWHA and affected people in the Bahía de Tela area or other areas with a high incidence of HIV/AIDS, on terms suited to their condition, which will include a preferential interest rate. Periodic reports will be issued every six months on the capture of these benefits, especially the effect of the financial subsidy on the ability to buy drugs.
- 2.16 For the direct benefits of the Bank's subsidy for this project to be transferred to the final beneficiaries, the interest rate that the financial intermediary charges under this specific program will be lower than that of its other products. This direct subsidy via the interest rate is justified because the conditions of these clients, who are infected with or affected by HIV/AIDS, entail higher transaction costs for them in carrying out their productive activities and potentially lower prices for their products and services (a portion of the proceeds of their operations must be used to buy drugs).

F. The Bank's strategy

- 2.17 The project activities are consistent with the Bank's updated Country Strategy with Honduras (document GN-2251) of April 2004, given that it promotes increased

economic opportunities in rural areas (Strategic area: Increasing the competitiveness of production-related activities) for PLWHA and WLWHA by helping to strengthen the capabilities of this low-income population and reduce one of the risk factors, namely, women's lack of autonomy and empowerment (Strategic area: Development of human capital). Likewise, the project fits within the poverty reduction strategy agreed on by consensus between the Government of Honduras, civil society organizations, and the international community, a strategy based on achieving the Millennium Development Goals.

G. Coordination with other donor programs

- 2.18 For the implementation of the activities provided for in the component on rights training, combating discrimination, and creating social capital, actions will be coordinated with other projects operating in the area, such as the HIV/AIDS prevention program among the young Garifuna population, the objective of which is to help reduce the incidence of HIV/AIDS through communication strategies based on educational entertainment. This and similar initiatives in the project area are financed by USAID in the framework of the initiative called Comunicando Cambio para la Vida/Academia para el Desarrollo Educativo [Communicating Change for Life/Educational Development Academy] (COMCAVI/AED) and their execution is fully under way and scheduled to be completed by mid-2008. USAID is the largest donor organization contributing to the fight against HIV/AIDS in the Central American region.

H. Summary of environmental and social review

- 2.19 The Committee on Environment and Social Impact (CESI) reviewed this operation without comment at meeting 15-07 of April 2007.

I. Special conditions

- 2.20 Prior to receiving the first disbursement of resources from **both project components**, ODEF will submit to the Bank: (i) the institutional coordination agreement between ODEF Financiera, ODEF Fundación, and ENMUNEH to execute the project; and (ii) evidence that the monitoring and evaluation systems for this pilot have been designed with baselines that make it possible to measure the improvement in the quality of life of the WLWHA participating in the program.
- 2.21 In addition, prior to receiving the first disbursement of **nonreimbursable financing**, ODEF will submit, to the Bank's satisfaction: (i) the Credit Regulations consistent with the methodology designed to serve WLWHA under the program approved by its Board of Directors; (ii) evidence that the project coordinator and credit advisors⁹ have been hired, and (iii) evidence that the training products for groups affected by HIV/AIDS have been designed explicitly with the specific features of the Garifuna population in mind. Since the financing component will be nonreimbursable, by the end of project execution, ODEF Financiera's assets should

⁹ In both cases, the terms of reference must specify that preference in hiring will be given to persons with a knowledge of the language spoken in the project's area of influence.

reflect a proportional increase equivalent to the amount of this component that was contributed by the Bank.

- 2.22 The Bank may disburse no more than 50% of the technical cooperation resources to ODEF until the latter has disbursed at least 25% of the nonreimbursable financing resources. However, for the disbursement of more than 50% of the financing resources, and additional disbursements, ODEF must demonstrate that at least 30% of the PLWHA and WLWHA loan portfolio in the project area (Tela) involves its own resources.

J. Reports, evaluations, and audits

- 2.23 **Reports.** ODEF NGO and ODEF Financiera will deliver reports on the status of the technical cooperation and nonreimbursable financing components, respectively, to the Bank's Country Office within 60 days following the end of each six-month period. These reports will include analysis of compliance with performance indicators, problems encountered in project execution, actions taken to overcome them, and projections for the next six-month period. At least the following will also be included: (a) **Nonreimbursable financing** report: (i) the component's financial situation and financial indicators; (ii) review of the indicator of access to credit for the beneficiary population; (iii) modifications and/or adjustments to the credit methodology and design of nonfinancial products; and (iv) impact of the IDB subsidy designed to give beneficiaries more resources with which to buy HIV/AIDS drugs; and (b) **Technical cooperation** report: (i) summary of the consultants' work and outcomes of the technical assistance provided; (ii) persons who have received training and in which areas; (iii) aspects and outcomes of participation in exchange events and internships; and (iv) aspects of coordination among the various agencies participating in the project.
- 2.24 **Evaluation.** The project provides for an evaluation to be carried out by an individual consultant selected and hired by the Bank's Country Office in Honduras using technical cooperation resources. The evaluation will be carried out when 24 months have elapsed from the first disbursement under the project, or when 50% of the financing has been disbursed, whichever is earlier. The evaluation will measure, at least: (i) the project's response to the problems originally identified that gave rise to it; (ii) the progress achieved in improving incomes for WLWHA or affected persons in Bahía de Tela and the managerial capacity and operational stability of the businesses, by comparing them against the baseline established at the start of the project; (iii) the degree of compliance with the project's performance indicators, especially the indicator of access to credit for WLWHA through the nonreimbursable financing component; (iv) the lessons learned and recommendations for improving project execution; and (v) the executing agencies' institutional and coordinating capacity.
- 2.25 **Audits.** The financing component will be subject to annual audits which must comply with applicable Bank policies and will be financed by technical cooperation resources. In addition, ODEF will defray the costs of preparing a final financial report that will show how the technical cooperation funds were utilized and verify

that the counterpart funds were contributed. This report will be audited by independent auditors acceptable to the Bank.

- 2.26 **Agreements.** Two agreements will be signed, one for each of the components to be executed. For the nonreimbursable technical-cooperation component, an agreement will be signed with ODEF NGO, and for the nonreimbursable financing component, an agreement will be signed with ODEF Financiera.

K. Project risks and mitigating factors

- 2.27 **Institutional risk.** The project is focused on supporting a group of people who traditionally have not been served by microfinance institutions. To reach this group, a grassroots organization is needed that can ensure constant communication between the microfinance institution and the beneficiaries through a partnership. This partnership could pose a risk to project execution if there is no clarity regarding the responsibilities of each organization or there are no efficient communication mechanisms. However, three factors mitigate this risk: (i) the two organizations involved have participated from the identification stage and in the design of the project's logical framework, which has resulted in a high degree of ownership on both sides; (ii) at the start of the project, all ODEF staff will be trained in providing services to PLWHA so that the Bahía de Tela pilot project can be replicated in ODEF's other offices, resulting in greater long-term sustainability for the project; and (iii) the inclusion of a grassroots organization that has great legitimacy within the Garifuna community will guarantee penetration of that market in a culturally appropriate manner. **Market risk.** One possible risk is that the products or services created and offered by WLWHA and PLWHA may not find acceptance in the market or may be rejected. This risk will be mitigated by technical cooperation activities to analyze options for businesses, markets, and ways of selling products. In addition, monitoring by the support organizations will be important in ensuring recognition by the public in general and customers in particular.

L. Exceptions to Bank policies

- 2.28 None.