**TC DOCUMENT**

1. **Basic Information for TC**

* Country/Region: HONDURAS
* TC Name: AGALTA VALLEY PAYMENT FOR ECOSYSTEM SERVICES SCHEME
* TC Number: HO-T1196
* Associated Loan/Guarantee Name: HO-L1033 (2155/BL-HO)
* Associated Loan/Guarantee Number: n/a
* Team Leader: Seth Factor (VPS/ESG); Team members: Graham Watkins (VPS/ESG); Ernesto Monter Flores (VPS/ESG); Ashley Camhi (INE/RND); Rodrigo Martinez (INE/CCS); Juan Carlos Pérez-Segnini (LEG/SGO); Daniel Torres-Gracia (TSP/CHO); and Doris Melissa Barandiaran Salcedo (VPS/ESG)
* Client Support
* Date of TC Abstract authorization: July 23, 2013
* Donors providing funding: n/a
* Beneficiary: HONDURAS
* Executing Agency and contact name: Bank executed.
* IDB Funding Requested: US$150,000 (Special Program for Biodiversity and Ecosystem Services)
* Local counterpart funding, if any: Co-financed by ABC: US$15,000 (in kind)
* Disbursement period (which includes execution period): 18 months (12 months execution)
* Required start date: November 2013
* Types of consultants (firm or individual consultants): firm
* Prepared by Unit: VPS/ESG
* Unit of Disbursement Responsibility : VPS/ESG
* TC Included in Country Strategy: HO-L1033 included in Country Strategy ; TC included in CPD: n/a
* GCI-9 Sector Priority: Poverty reduction and equity enhancement; climate change, sustainable (including renewable) energy, and environmental sustainability

1. **Objectives and Justification** 
   1. The Inter-American Development Bank (IDB) is currently financing the Agricultural Corridor, a road paving project (HO-L1033) in the Agalta Valley, in the northeast of Honduras. A portion of the Valley through which the road passes is one of only four areas in the world known to be occupied by the globally endangered Honduran Emerald Hummingbird — the only bird species endemic to Honduras.[[1]](#footnote-1)
   2. One of the activities financed under HO-L1033 was the development of a Honduran Emerald Hummingbird conservation strategy paper for the Agalta Valley. In the area of influence of project HO-L1033, the strategy paper identifies twenty remaining fragments of suitable Emerald habitat. All but one of these fragments is located on private land.
   3. The paper recommends the development of a payments for ecosystem services scheme (PES scheme) as the most viable conservation option. PES schemes are cash transfers from users of environmental services to providers of these services conditional on continued provision. PES schemes have become well known and well established in the LAC Region (LAC leads the developing world in PES implementation) as a financing mechanism to support the protection of biodiversity and maintenance of ecosystem services (RFF, 2012). The PES scheme for Agalta Valley would compensate landowners for conserving or restoring Emerald habitat found on their land.
   4. The IDB has a history in supporting PES schemes. The water and sanitation division of the Bank has been working actively in the establishment of PES schemes as water funds, which seek to compensate upstream landholders for the protection of watersheds that support downstream communities. In addition, PES schemes have been supported by the IDB through the Global Environment Facility (GEF). For example, we are currently supporting the national PES program in Costa Rica to improve biodiversity conservation and sustainable use through management of landscape ecosystem services. Similar efforts have been and are being undertaken by the IDB in Honduras and Guatemala with the support of the GEF.
   5. Central America has the highest number of individual PES schemes by region in the world. There are various models, from locally controlled to government led. The majority of these PES schemes are locally run and involve the influence of environmental NGOs which support involvement of local landholders. The major lesson learned from these PES schemes is that design and involvement of local stakeholders is key and must be undertaken from the onset of the project. This ensures that the providers receive appropriate compensation for their provision of services.
   6. The objective of this Technical Cooperation (TC) is to design the PES scheme. The scheme will be composed of an incentive structure, statutes with responsibilities and obligations, contract arrangements, and financial and administration provisions for sustainable PES financing. This TC will also support the strengthening of local institutions by bringing together various stakeholders such as the local government, landholders, and local environmental NGOs in the design phase of the PES scheme. The process of designing the PES scheme would be informed by a similar experience at the World Bank, which is currently overseeing the implementation of a successful conservation program, including a functioning PES component, for the same species in the Aguán Valley of Honduras and previous experiences with the World Bank also in the Olancho Department where the Agalta Valley is located. The project will coordinate with the World Bank team to incorporate lessons learned.
   7. The proposed TC was requested by the Government of Honduras (Secretaria de Finanzas) on July 12, 2013 (DGCP-DEN-650/2013). The beneficiary will be the Government of Honduras as well as the Bank since the Bank is working to expand its support of market based mechanisms for conservation through the Biodiversity and Ecosystem Services Program. The TC will contribute to the following GCI-9 lending program priority targets: (i) poverty reduction and equity enhancement, as the TC will create a new source of income for local landowners in the Agalta Valley of Honduras and (ii) climate change, sustainable (including renewable) energy, and environmental sustainability, as the TC will protect habitat of a species critical to the Region and the ecosystem services that support it. In addition, the proposed TC will contribute to the sector priority, “Protect the environment, respond to climate change, promote renewable energy, and ensure food security.” Lastly, the proposed TC supports the Biodiversity and Ecosystem Services Program, as the TC will contribute to one of the main activities of the Program, to design and implement market-based mechanisms (e.g., payments for ecosystem service schemes) aimed at sustaining the biodiversity and ecosystem services utilized by productive sectors.
2. **Description of activities/components and budget**
   1. Expected outputs and results are fully consistent with the IDB’s Biodiversity and Ecosystem Services Program[[2]](#footnote-2).
   2. The proposed TC project entails the following activities, outputs and results:
   3. **Activity 1.** **Rapid Rural Evaluation**

The Rapid Rural Evaluation will include the following areas:

* Assessment of lessons learned from World Bank experience with the species in the Aguán Valley.
* Socio-economic characteristics of landowners: number of owners, income generating activities, social norms towards the use of the habitat, for all known remaining patches of potential Honduran Emerald habitat in the Agalta Valley.
* Type of land tenure: land-use, opportunity costs of land, agricultural practices.
* Risks and tradeoffs for farmers for setting aside areas for conservation.
* Identification of support organizations and local institutions that have the capacity to create the necessary enabling environment and monitor and evaluate contract agreements between landowners and the PES scheme.
* Survey of landowners’ willingness to accept payments and/or other forms of compensation for conservation and/or restoration.
* Analysis of alternative options other than PES for achieving Honduran Emerald conservation on remaining patches of potential Honduran Emerald habitat in the Agalta Valley (e.g., direct purchase; expropriation or declaration of national park).
* Analysis of options for achieving restoration of already-converted Honduran Emerald Habitat in the Agalta Valley.
  1. **Activity 2.** **Ecosystem Services Baseline Analysis**

Conduct an ecosystem services baseline analysis, which will identify existing ecosystem services within the project area to establish a baseline for monitoring. The result will be an ecosystem services baselines report. General activities will include:

* 1. **Activity 3.** **Establishment of a Sustainable Governance Structure**

The establishment of a governance structure will include the following areas:

* Legal: identification of any new legislation that might be required and development of a feasible plan for creating such legislation; identification of existing legislation relevant to the functioning of the PES scheme.
* Institutional: development of a permanent administrative mechanism that implements, monitors, and seeks to expand the PES scheme in the long term. This mechanism will likely housed within a well-established and stable Honduran NGO, to ensure the long-term sustainability of the scheme.
* Contractual: Template contracts, types of compensation (i.e., monetary or otherwise), compensation levels and rationale (e.g., levels determined by current and agreed future land uses, opportunity costs, transaction costs, etc.).
* Financial: identification of potential sources for a sustainable financial scheme that assures its continuity and long-term impacts.
  1. **Activity 4.** **PES Operation Manual**

The PES Operation Manual will include:

* Institutional structure(s) for the long-term operation of the PES scheme, with all roles and responsibilities clearly defined.
* Exemplary draft contract arrangements between landowners and the PES administrator.
* M&E plan including indicators, responsible parties, and budgets.
* Relevant legal underpinnings of the scheme, as appropriate.
* Complaints receipt and redress mechanism.
* An overall budget for operation of the PES scheme, including initial capital investments and recurring costs.

1. **Indicative Results Matrix**

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| --- | --- | --- | --- |
| **Project Activity** | | **Outputs** | **Results** |
| **General** |  | **TC General Outcome: Protection of the Honduras Emerald Hummingbird through the establishment of a PES scheme.** |
| **Activity 1. Rapid Rural Evaluation** | 1. Background studies | Outcome 1: Necessary information provided to establish the baseline for the PES scheme |
| **Activity 2. Ecosystem Services Baseline Analysis** | 2. Ecosystem services baseline report | Outcome 2: Necessary information provided to establish the baseline for the PES scheme |
| **Activity 3. Establishment of Governance Structure** | 3. PES scheme | Outcome 3: Institutional, legal and financial framework established for the PES scheme. |
| **Activity 4. PES Operation Manual** | 4. Operational Manual for PES scheme | Outcome 4: Instructions established for the PES scheme. |

1. **Indicative Budget**
   1. The project total cost is US$165,000 of which US$150,000 will be funded by the Special Program for Biodiversity and Ecosystems Services and the equivalent of US$15,000 co-financed by ABC as in -kind contribution. 77

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| --- | --- | --- | --- | --- |
| **Activity** | **Description** | **IDB/Fund Funding US$** | **Counterpart (ABC) Funding** | **Total Funding**  **US$** |
| **Activities** | | | | |
| **1. Rapid Rural Evaluation** | The Rapid Rural Evaluation will address the following areas:   * Socio-economic characteristics of landowners: number of owners, income generating activities, social norms towards the use of the habitat, for all known remaining patches of potential Honduran Emerald habitat in the Agalta Valley * Type of land tenure: land-use, opportunity costs of land, agricultural practices * Risks and tradeoffs for farmers for setting aside areas for conservation * Identification of support organizations and local institutions that have the capacity to create the necessary enabling environment and monitor and evaluate contract agreements between landowners and the PES scheme * Survey of landowners’ willingness to accept payments and/or other forms of compensation for conservation and/or restoration * Analysis of alternative options other than PES for achieving Honduran Emerald conservation on remaining patches of potential Honduran Emerald habitat in the Agalta Valley (e.g., direct purchase) * Analysis of options for achieving restoration of already-converted Honduran Emerald Habitat in the Agalta Valley | 40,000 |  | 40,000 |
| **2. Ecosystem Services Baseline Analysis** | Identification of existing ecosystem services to establish a baseline for monitoring. . General activities will include: | 30,000 |  | 30,000 |
| **3. Establishment of Governance Structure** | The establishment of a governance structure will include the following areas:   * Legal: identification of any new legislation that might be required and development of a feasible plan for creating such legislation; identification of existing legislation relevant to the functioning of the PES scheme * Institutional: permanent administrative mechanism that enforces, monitors, and seeks to expand the PES scheme * Contractual: Template contracts, types of compensation (i.e., monetary or otherwise), compensation levels and rationale (e.g., levels determined by current and agreed future land uses, opportunity costs, transaction costs, etc.) * Financial: identification of potential sources for a sustainable financial scheme that assures its continuity and long-term impacts | 50,000 | 15,000 | 65,000 |
| **4. PES Operation Manual** | The PES Operation Manual will include:   * Institutional structure(s) for the long-term operation of the PES scheme, with all roles and responsibilities clearly defined * Exemplary draft contract arrangements between landowners and the PES administrator * M&E plan including indicators, responsible parties, and budgets * Relevant legal underpinnings of the scheme, as appropriate * Complaints receipt and redress mechanism * An overall budget for operation of the PES scheme, including initial capital investments and recurring costs | 30,000 |  | 30,000 |
| **TOTAL** |  | **US$150,000** | **15,000** | **US$165,000** |

1. **Executing agency and execution structure**
   1. The Bank will execute this TC through VPS/ESG and the direct contracting of the American Bird Conservancy (ABC), see Sole Source Justification under Annex IV. ABC, <http://www.abcbirds.org/>, is an internationally recognized non-governmental organization dedicated to bird habitat conservation and community capacity building. ABC works on an Americas-wide landscape where diverse interests collaborate to ensure that native bird species and their habitats are protected, where their protection is valued by society, and they are routinely considered in all land-use and policy decision-making.
   2. ABC operates the most comprehensive and effective threatened bird conservation program in the Americas. Working closely with in-country partners and government agencies, ABC’s international team is leading efforts to develop and implement conservation actions for the most threatened bird species,

such as protecting and restoring their habitat, establishing monitoring programs to ensure conservation goals are met, and helping in-country partners develop long-term, sustainable, financial independence and organizational strength.

* 1. ABC is a leader in developing sustainable financing mechanisms to ensure the long-term success of projects. The Conservation Birding website (http://www.conservationbirding.org/) is one example of this effort. They also work to develop other sources of sustainable income to finance joint projects including establishing endowment funds (e.g. $2M endowment for Vilcanota, Peru) and developing PES schemes. For the latter, they have been working to secure carbon rights for a project in northern Peru and already have the support of a European-based company investing in the carbon credit market.
  2. Internationally, ABC works with local partners to conduct conservation projects involving the creation and management of protected areas and restoration of habitat through tree planting and other activities on public, private, and communal lands. Its partners include local communities, NGOs, universities, and government agencies. ABC often provides co-financing for its projects, as it plans to do with the proposed project for the Honduran Emerald. It also has access to potential donors that could support the endowment of the PES fund.
  3. With regards to the Honduran Emerald in particular, ABC worked on this species between 2002 and 2006 with funding from the USFWS, Arkansas, and Global Conservation Fund, and also coordinated with the World Bank regarding mitigation for potential impacts on the species from a highway project in the Aguán Valley.
  4. In summary, the IDB can directly contract ABC for the unique requirements of this consultancy because it offers: (a) experience in the design of PES schemes to protect critical biodiversity; (b) matching funds for the project as well as access to potential donors for the PES fund; and (c) direct experience with the Honduran Emerald and its natural habitat, which is the primary reason it is uniquely qualified to efficiently execute the TC in a timely and efficient manner. As such, ABC is uniquely positioned amongst peers for supporting and designing a PES scheme for the protection of the Honduran Emerald.
  5. The execution responsibility of ABC includes coordinating its activities with the HO-L1033 IDB Team Leader and MCAH as the Bank’s executing agency of the HO-L1033.

1. **Major issues** 
   1. The risk exists that local landowners will not want to participate in the PES scheme. This risk will be mitigated by providing appropriate incentives based on community feedback and sound studies of existing land use activities and opportunity costs of the land.
2. **Exceptions to Bank policy** 
   1. N/A
3. **Environmental and Social Strategy** 
   1. It is not anticipated that the activities to be financed in this TC will have negative direct or indirect social or environmental effects. Following ESG’s project classification process (Safeguard Policy Filter[[3]](#footnote-3) and Safeguard Screening Form[[4]](#footnote-4)) requirements, it has been determined that this project falls under Category C. No environmental assessment studies or consultations are required for Category "C" operations.

**Annexes:**

Annex I: Letter of Request: [IDBDOCS-#38177459-Request Letter\_Gov Honduras](PCDOCS://IDBDOCS/38177459/1)

Annex II: Terms of Reference: [IDBDOCS-#37933011-Annex II: TOR for HO-T1196](PCDOCS://IDBDOCS/37933011/R)

Annex III: Procurement Plan: [IDBDOCS-#37933018-Annex III: HO-T1196 Procurement Plan](PCDOCS://IDBDOCS/37933018/R)

Annex IV : Sole Source Justification: [IDBDOCS-#37932648-Annex IV: SSJ for ABC](PCDOCS://IDBDOCS/37932648/R)

1. IUCN Red List species account can be accessed here: <http://www.iucnredlist.org/details/106001934/0> [↑](#footnote-ref-1)
2. http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37444118 [↑](#footnote-ref-2)
3. [IDBDOCS-#38177019-2013000637\_SPF\_HO\_T1196](PCDOCS://IDBDOCS/38177019/1) [↑](#footnote-ref-3)
4. [IDBDOCS-#38177020-2013000637\_SSF\_HO\_T1196](PCDOCS://IDBDOCS/38177020/1) [↑](#footnote-ref-4)