

**ADMINISTRATION AGREEMENT**

**between**

**THE NORDIC DEVELOPMENT FUND**

**and**

**THE INTER-AMERICAN DEVELOPMENT BANK**

**regarding**

**the**

**Non-Reimbursable Financing for the Project  
“Indigenous And Afro-Honduran Peoples  
and Climate Change”**

**HO-X1019**

**THIS ADMINISTRATION AGREEMENT** is entered into between the Nordic Development Fund (“NDF”), and the Inter-American Development Bank (the “Bank”) (together referred to as the “Parties”, and individually either of them, a “Party”).

**WHEREAS**, the bank has designed and approved project HO-X1019 titled, “Indigenous and Afro-Honduran Peoples and Climate Change” (the “Project”), as described in the attached project document (the “Project Document”);

**WHEREAS**, NDF has agreed to support the execution of the Project by providing a project specific grant contribution to be administered by the Bank; and

**WHEREAS**, the Bank is prepared to receive and administer the contribution funds to be made available by NDF.

**NOW, THEREFORE**, the Parties hereby agree as follows:

#### **TRANSFER AND MANAGEMENT OF FUNDS**

1. NDF will make available to the Bank a contribution of EUR 3,500,000 (three million five hundred thousand Euros) (the “Contribution”) to be administered by the Bank to finance the Project.
2. The Contribution will be solely for the purposes indicated in the Project Document. Any material deviations from the objectives and activities of the Project described in the Project Document will require NDF’s written approval.
3. Following the signature of this Administration Agreement by the Parties, NDF shall, subject to Article 12 below, transfer the Contribution to the Bank in one single installment, upon the Bank’s written request. The Contribution will be deposited in an account indicated by the Bank in writing. Upon receipt of such deposit, the Bank will convert the amount of the Contribution into United States dollars and will deposit them into an account held by the Bank in said currency for the administration of the Contribution (the “Account”).
4. The Bank will administer the Contribution in accordance with the provisions of this Administration Agreement and the Bank’s applicable policies and procedures, including those applicable for third party resources administered by the Bank. The Bank will exercise the same care in the discharge of its functions, as described in this Administration Agreement, as it exercises with respect to the administration and management of its own affairs and will have no further liability to NDF in respect thereof.
5.
  - a) The Contribution will be accounted for separately from the Bank’s assets, and will be administered separately from other contributions received by the Bank, but may be commingled with other contributions from NDF.
  - b) The Bank may freely exchange the Contribution funds into other currencies as may facilitate their administration and disbursement. The Bank will not be responsible for foreign exchange risk in the receipt, conversion or administration of Contribution funds. Any adverse impacts of potential foreign currency fluctuations

during the implementation period shall be discussed by the Parties and appropriate remedial measures and amendments shall be negotiated if necessary. Notwithstanding the foregoing, neither NDF nor the Bank shall be obliged to contribute any additional funds as a result of any foreign currency fluctuations.

- c) Pending disbursement in connection with the Project, the Bank may at its discretion invest and reinvest the resources of the Contribution, following the Bank's investment policies, procedures and practices. Income earned from such investment and reinvestment shall be credited to the Account and returned to NDF, upon request from NDF or when the Account is closed, whichever occurs later.
6. To assist in the defrayment of the administrative costs in relation to the Contribution, the Bank will charge and retain a fee equal to five percent (5%) of the total amount of the Contribution, which may be withdrawn by the Bank from the Contribution, once the Contribution is converted into United States dollars. In addition, the Bank may also use the resources of the Contribution to cover the costs charged to the Bank related to the maintenance and transactions of the Account.

## **IMPLEMENTATION**

7. The Bank's policies and procedures will be applicable to any relevant operational, financial and fiduciary aspects of the Project, including the procurement of goods, works, and consulting and other services, carried out with the Contribution, as required by the different components of the Project. Further, NDF accepts that:
- a) the resources of the Contribution will be completely untied; and
  - b) the consultancy services financed with the Contribution may be provided and executed by companies, specialized institutions or individuals from any Bank member country.
8. The Bank shall inform NDF of any review missions undertaken by it related to the Contribution and provide to NDF a report setting out the main findings or results of such mission. The Bank shall invite NDF to join any Project review missions, including supervision missions and the mid-term review during the implementation of the Project and upon its completion. NDF shall be responsible for its own costs and obtaining any official approvals that may be required with respect to participation in any Project review missions.
9. NDF will not be responsible for the activities of any person or third-party engaged by the Bank as a result of this Administration Agreement, nor will NDF be liable for any costs incurred by the Bank in terminating the engagement of any such person.

## **REPORTING AND AUDIT**

10. The Bank shall provide NDF with:
- a) reports on implementation of the activities funded under the Contribution and other reports and information as NDF may reasonably request concerning the progress of the Project that the Bank can provide in its normal course of business,

and ii) promptly, no later than six months following the completion of the Project, a final Project report;

b) semi-annually non-audited activity or financial reports of the Project, as such reports are provided by the Project's executing agency to the Bank, pursuant to the technical assistance or financing agreement entered between the executing agency and the Bank and, ii) promptly, and no later than six months from financial closure of the Project, a terminal financial report showing the receipts, income and expenditures under the Account and the remaining balance, if any. The Bank may provide a copy of any audited reports of the Project available to the Bank; and

c) should NDF require an external audit of the Account, NDF shall request the Bank for such an external audit in writing upon completion of the Project. The cost of this audit shall be charged against the Account, provided funds are available after settlement of all expenditures related to the Project. Alternately, upon agreement by NDF and the Bank the cost of such external audit shall be paid separately by NDF.

## **CONSULTATIONS, AMENDMENTS, TERMINATION AND DISPUTE SETTLEMENT**

11. As soon as possible upon completion of the Project, the Bank shall return to NDF any remaining uncommitted Contribution funds, including, if applicable, any income from investment or reinvestment in accordance with Article 5(c) above, unless otherwise agreed to in writing by the Parties.
12. NDF acknowledges that the Bank's commitment to use the Contribution as contemplated herein shall be subject to the Bank's formalization of all internal approvals necessary for the Project and/or the Project Document, and the Bank acknowledges that NDF's disbursement in accordance with Article 3 above is subject to such internal approvals. For the avoidance of doubt, the Bank hereby confirms that the Project has been approved by its Board of Executive Directors and no further internal approvals are pending.
13. The Bank shall endeavour to maximize opportunities to highlight the identity of NDF's contribution to the Project (e.g., through related signage, documentation and public information about the activities, including the use of NDF's logo), and invite NDF representatives to participate in key events related to the Project. NDF shall be responsible for its own costs with respect to any participation in such events, unless the NDF and the Bank agree otherwise in a case-by-case basis.
14.
  - a) The Bank shall inform NDF promptly of any condition which significantly interferes, or threatens to interfere, with the performance by the Bank of its commitments under this Administration Agreement.
  - b) The Bank shall notify and consult with NDF whenever the Bank identifies a major change of scope in relation to any activities financed under the Contribution. If any such changes occur, which in the opinion of the Bank or NDF impairs significantly the developmental value of the Project, NDF and the Bank shall consult on measures to resolve the problem and possible courses of action. In the event of

such changes, NDF, however, may decide to terminate this Administration Agreement or agree with the Bank on an amendment thereof.

15. The offices responsible for coordination of all matters and receiving any notice or request in writing in connection with this Administration Agreement or the Project will be the following:

a) For the Bank:

Inter-American Development Bank  
1300 New York Avenue, NW  
Washington, D.C. 20577  
UNITED STATES OF AMERICA  
Attention: Chief, Grants and Co-financing Management Unit  
Office of Outreach and Partnership (ORP/GCM)  
Tel.: ++ 202-623-1774  
Fax: ++ 202-623-3171  
E-mail: [orp-gcm@iadb.org](mailto:orp-gcm@iadb.org)

b) For NDF:

Nordic Development Fund  
P.O Box 185, Fabianinkatu 34FIN - 00171 Helsinki  
FINLAND  
Attention: Helge Semb  
Managing Director  
Tel.: +358 618 002  
Fax: + 358 9 622 1491  
E-mail: [info.ndf@ndf.fi](mailto:info.ndf@ndf.fi)

16. This Administration Agreement will come into force on the date of its signature by each of the Parties and shall remain in full force and effect until the date on which the Contribution has been fully disbursed by the Bank and all activities financed under the Contribution shall have been completed as set out in the Project Document. An estimated execution timetable is stated in the Project Document.
17. If at any time either Party determines that the purposes of this Administration Agreement can no longer be effectively or appropriately carried out either Party may give notice of termination of this Administration Agreement. Such termination shall enter into effect three (3) months after notice has been received, subject to the settlement of any outstanding obligations made prior to the notice being received. In the event of termination by either Party, both Parties shall cooperate to ensure that all arrangements made hereunder are settled in a fair and orderly manner. Upon termination the Bank shall return the Contribution funds to NDF in accordance with Article 11 above.
18. The Parties may amend any provision of this Administration Agreement in writing.

19. Subject to consultation with the other Party and their respective policies and procedures with respect to the disclosure of information, the Parties may make this Administration Agreement publicly available.
20. Nothing in this Administration Agreement may be construed as creating an agency relationship between the Parties.
21. The Parties acknowledge and agree that the Contribution constitutes the sole financing for the Project provided by NDF. The Administration Agreement will be considered joint financing for purposes of the provisions of the "Cooperation Agreement between the Nordic Development Fund and the Inter-American Development Bank for the Cofinancing of Programs and Projects", amended and restated as of January 26, 2010 (the "NDF-IDB Cofinancing Agreement"). For the avoidance of doubt, the provisions of NDF-IDB Cofinancing Agreement will apply to this Administration Agreement, except that in the event of conflict, the provisions of this Administration Agreement will prevail.
22. The Parties will seek to settle amicably any disputes that may arise from or relate to this Administration Agreement.

**IN WITNESS WHEREOF**, the Nordic Development Fund and the Inter-American Development Bank, each acting through its duly authorized representative, have signed this Administration Agreement in two (2) original counterparts in the English language as of the dates indicated below.

**NORDIC DEVELOPMENT  
FUND**



Satu Santala  
Member of the Board of Directors

Date: 2.11.2012

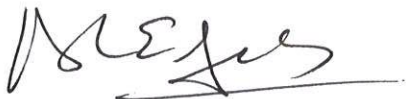
**NORDIC DEVELOPMENT  
FUND**



Pasi Hellman  
Managing Director

Date: 2.11.2012

**INTER-AMERICAN  
DEVELOPMENT BANK**



Bernardo Guillamon  
Manager  
Office of Outreach and Partnerships

Date: NOVEMBER 9, 2012

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **HONDURAS**

### **INDIGENOUS AND AFRO-HONDURAN PEOPLES AND CLIMATE CHANGE**

**(HO-X1019)**

#### **GRANT PROPOSAL**

This document was prepared by the project team consisting of Olga Patricia Falck (GDI/CHO), Project Team Leader; Ubaldo Inclán-Gallardo (INE/CCS); Paloma Marcos (SCL/GDI); Nubia Zúniga (CID/CHO); Nalda Morales (FMP/CHO); Juan Carlos Martell (FMP/CHO); Gabriela Regojo (LEG/SGO); Monserrat Bustelo (SCL/GDI); David Cotacachi (SCL/GDI), and Lina Uribe Vásquez (SCL/GDI).

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. The Board may or may not approve the document, or may approve it with modifications. If the document is subsequently updated, the updated document will be made publicly available in accordance with the Bank's Access to Information Policy.

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ANNEXES	
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Annex II	Results matrix
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ELECTRONIC LINKS	
<b>REQUIRED</b>	
1.	Annual work plan (Activities plan for the first disbursement and the first 18 months of implementation) <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932190">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932190</a>
2.	Monitoring and evaluation arrangements <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932191">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932191</a>
3.	Full procurement plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932192">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932192</a>
<b>OPTIONAL</b>	
1.	Map showing location of municipios with indigenous and Afro-Honduran populations <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932181">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932181</a>
2.	Municipios with indigenous and Afro-Honduran populations vulnerable to climate change <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932182">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932182</a>
3.	Map of eligible municipios with indigenous and Afro-Honduran populations <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932183">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932183</a>
4.	Climate change problems and adaptation and mitigation measures <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932184">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932184</a>
5.	PEC-DIPA Manual <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932187">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932187</a>
6.	Problem frequency by climate vulnerability and indigenous and Afro-Honduran populations <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932185">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932185</a>
7.	Institutional capacity assessment (ICAS) of SEDINAFROH <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932188">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932188</a>
8.	Operating Manual (draft) <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932186">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36932186</a>
9.	Socioeconomic evaluation <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36999360">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36999360</a>
10.	Roles of participating agencies <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36934037">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36934037</a>
11.	Safeguard Policy Filter Report and Safeguard Screening Form <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37081271">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37081271</a>

## ABBREVIATIONS

CCAM	Climate change adaptation and mitigation
CEFOSAT	Centro de Formación del Sistema de Aprendizaje Tutorial [Tutorial Learning System Training Center]
CONEANFO	Comisión Nacional para el Desarrollo de la Educación Alternativa No Formal [National Commission for the Development of Nonformal Alternative Education]
CUT	Cuenta Única del Tesoro [Unified Treasury Account]
DIPA	Desarrollo Integral de Pueblos Autóctonos [Program for the Integrated Development of Indigenous Peoples]
ENCCH	Estrategia Nacional de Cambio Climático para Honduras [Honduras National Climate Change Strategy]
FHIS	Fondo Hondureño de Inversión Social [Honduran Social Investment Fund]
FUNDAEC	Fundación para el Desarrollo y Aplicación de las Ciencias [Foundation for Scientific Development and Application]
IAHPs	Indigenous and Afro-Honduran peoples
NDF	Nordic Development Fund
PCU/FHIS	FHIS program coordination unit
PCU/SEDINAFROH	SEDINAFROH program coordination unit
PEC-DIPA	Projects Executed by the Communities of the Program for the Integrated Development of Indigenous Peoples
SAT	Sistema de Aprendizaje Tutorial [Tutorial Learning System]
SEDINAFROH	Secretaría de Estado en el Despacho de Pueblos Indígenas y Afrohondureños [Ministry for Indigenous and Afro-Honduran Peoples]
SEFIN	Ministry of Finance
SEPA	Procurement Plan Execution System
SERNA	Ministry of Natural Resources and Environment
SIAFI	Sistema Integrado the Administración Financiera [Integrated Financial Management System]
TCEB	Tercer ciclo de educación básica [lower secondary education]
UAP	Unidad Administradora de Proyectos [Project Administration Unit]
UAP/SEDINAFROH	SEDINAFROH Project Administration Unit
UEPEX	Unidades Ejecutoras de Proyectos con Financiamiento Externo [executing units of externally-funded projects]

## PROJECT SUMMARY

### HONDURAS INDIGENOUS AND AFRO-HONDURAN PEOPLES AND CLIMATE CHANGE (HO-X1019)

Financial Terms and Conditions			
Beneficiary: Republic of Honduras		Amortization period:	N/A
Co-executing agencies: Ministry for Indigenous and Afro-Honduran Peoples (SEDINAFROH) and the Honduran Social Investment Fund (FHIS)		Disbursement period:	5 years
		Grace period:	N/A
Source	Amount (US\$)	Inspection and supervision fee:	N/A
IDB <sup>1</sup> , Nordic Development Fund (NDF)	4,387,600	Interest rate:	N/A
Total	4,387,600	Credit fee:	N/A
		Currency of approval:	United States dollars
Project at a Glance			
<b>Project objective/description:</b> The general objective of the program “Indigenous and Afro-Honduran Peoples and Climate Change” is to help increase the capacity of indigenous and Afro-Honduran peoples (IAHPs) to adapt to and mitigate climate change, reduce their vulnerability to climate risks that affect their well-being and cultures, and take advantage of any positive opportunity related to climate change adaptation and mitigation (CCAM).			
<b>Conditions precedent to the first disbursement:</b> (i) Approval of the program’s Operating Manual, which is to include an administrative fiduciary and internal control manual for SEDINAFROH (paragraph 2.6); (ii) updating of the cash flow, based on the program’s final execution plan (paragraph 2.2); (iii) signature of agreements for the execution and transfer of resources between the Ministry of Finance (SEFIN) and SEDINAFROH, and between SEFIN and the FHIS (paragraph 3.2); (iv) signature of an interagency agreement between SEDINAFROH and the FHIS for execution of the program’s Component 1 (paragraph 3.3); (v) implementation by SEDINAFROH of the module for executing units of externally-funded projects (UEPEX) (paragraph 2.5); and (vi) establishment of the program coordination unit (PCU) in SEDINAFROH, and hiring of the following key staff: general coordinator, procurement specialist, and financial/administrative specialist and establishment of the PCU in the FHIS and hiring of the following key staff: coordinator and financial/administrative specialist (paragraph 3.2).			
<b>Special contractual conditions:</b> An external and independent evaluation that will be commissioned once 80% of the resources of the contribution have been committed (paragraph 3.12).			
<b>Exceptions to Bank policies:</b> None			
<b>Project qualifies as:</b> SEQ [ <input type="checkbox"/> ]                      PTI [ <input checked="" type="checkbox"/> ]                      Sector [ <input checked="" type="checkbox"/> ]                      Geographic [ <input type="checkbox"/> ]                      Headcount [ <input type="checkbox"/> ]			

<sup>1</sup> These NDF resources will be received through a Project Specific Grant (PSG). The NDF is planning to contribute 3.5 million euros, equivalent to US\$4,387,600 according to the 4 July 2012 exchange rate of 1.25360. The Bank will not have the resources until an administration agreement has been signed with the NDF, and the resources have been delivered to the Bank and converted to United States dollars. The Bank administers PSG resources in accordance with document SC-114. Pursuant to the provisions of that document and the Cooperation Agreement signed by the NDF and the Bank for cofinancing programs and projects, dated 2 October 1994 and amended on 26 January 2010 (Article IV, Section 6), the NDF’s commitment will be established in an administration agreement.

## I. DESCRIPTION

### A. Background, problems, and rationale

- 1.1 The 2010 report on the Global Climate Risk Index ranked Honduras as the third country worldwide most severely affected by extreme weather events associated with climate change during the 1990-2008 period. As part of the Mesoamerican region, Honduras is exposed to climate change impacts: rising temperatures, changing rainfall patterns, rising sea levels, and more frequent and higher intensity extreme natural events.<sup>2</sup> Various climate scenarios for the country predict temperature increases of between 2°C and nearly 5°C by the year 2100, and a decline in rainfall of between 15% and 50%.<sup>3</sup> Estimates for the 1999-2020 period suggest that rising sea levels will cause losses of 62,185 mt<sup>2</sup> due to land erosion, and 1,276 kms<sup>2</sup> due to flooding in the most vulnerable areas.<sup>4</sup> The country's vulnerability to climate change is aggravated by its lack of capacity for adaptation because a high percentage of its population lives below the poverty line.<sup>5</sup>
- 1.2 The Government of Honduras, in its Country Vision document for 2010-2038, addresses climate change adaptation and mitigation actions (CCAM). Given the potential for extreme weather events, one of its key strategies is to strengthen resilience and survival capacities. For its part, the National Climate Change Strategy for Honduras (ENCCCH) provides a general framework for CCAM that includes strategies and measures to reduce socioenvironmental and economic vulnerability, and to improve adaptation capacity, especially for the communities, sectors, and territories most exposed to climate threats, which include the indigenous and Afro-Honduran peoples (IAHPs), among others, who live in areas subject to multiple risks.<sup>6</sup>
- 1.3 According to official estimates (National Statistics Institute-INE, 2001),<sup>7</sup> the IAHPs represent 7% of the population, and their human development indicators are low in

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<sup>2</sup> IDB. Vulnerabilidad y Adaptación al Cambio Climático. Diagnóstico Inicial, Avances, Vacíos y Potenciales Líneas de Acción en Mesoamérica. [Vulnerability and adaptation to climate change. initial assessment, progress, gaps, and potential lines of action in Mesoamerica]. September 2010.

<sup>3</sup> ECLAC. Honduras. Efectos del Cambio Climático sobre la Agricultura [Effects of Climate Change on Agriculture]. Mexico. 2010.

<sup>4</sup> IDB. Vulnerability and adaptation to climate change. initial assessment, progress, gaps, and potential lines of action in Mesoamerica. September 2010.

<sup>5</sup> According to 2011 figures, 61.9% of the households are poor and 41.6% are extremely poor (loan proposal HO-L1071).

<sup>6</sup> According to the ENCCCH, the conceptual framework underpinning the estimates of vulnerability and impact was defined in accordance with climate change threats and potential impacts. The scant information available means it is impossible to quantitatively estimate the magnitude, extension, and duration of climate change impacts. The indigenous populations are: Lenca, Maya Chortí, Miskitu, Nahua, Pech, Tawahka, and Tolupán. The Afro-Honduran populations are: Garifuna and English-speaking Blacks.

<sup>7</sup> However, according to a 2007 "self-census," these communities estimate their population at 20% of the total. (Strategic Plan, 2007).

comparison with the rest of the population.<sup>8</sup> They lag behind in terms of years of schooling, economic participation, income, quality of dwelling, loss of language, and reproduction of disadvantageous gender roles for women, among other gaps.<sup>9</sup> Of the IAHPs living in rural areas, 20% are poor and 80% are extremely poor. The former devote themselves largely to fishing and crafts, the latter to subsistence farming.<sup>10</sup> They live in 15 of the country's 18 departments.<sup>11</sup>

- 1.4 According to climate change vulnerability estimates,<sup>12</sup> 127 of the country's municipios have indigenous and Afro-Honduran populations vulnerable to climate change. Of these municipios, 34 are highly vulnerable, and 12 of them have received some type of investment for productive and human capital development from the Program for Integrated Development of Indigenous Peoples (DIPA).<sup>13</sup> Another 93 municipios less vulnerable to climate change have indigenous and Afro-Honduran communities; the DIPA Program has invested in productive and human capital development in 20 of them.
- 1.5 A total of 32 municipios with indigenous and Afro-Honduran communities are vulnerable to climate change, to different degrees, and have received DIPA investments. These 32 municipios are the program's target group,<sup>14</sup> for three reasons: (i) degree of vulnerability; (ii) sustainability of DIPA Program investments; and (iii) complementarity of DIPA Program investments, which will enable it to execute pilot projects for the diversity of indigenous and Afro-Honduran communities. The nine IAHPs are represented in this group of 32 municipios.

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<sup>8</sup> IDB. Plan Estratégico para el Desarrollo Integral de los Pueblos Autóctonos [Strategic Plan for the Comprehensive Development of Autochthonous Peoples]. Tegucigalpa, MDC, December 2007.

<sup>9</sup> Faúndez, Alejandra and Valdés, Marco. 2011. Caracterización de la Población Indígena y Afrodescendiente de Honduras [Description of the Indigenous and Afro-descendant Population in Honduras].

<sup>10</sup> IDB. Technical note on gender and diversity in Honduras. Clara Alemann, March 2012.

<sup>11</sup> See optional link 1: Map showing location of municipios with IAHPs.

<sup>12</sup> COPECO. Estimaciones de municipios con alta vulnerabilidad y con índice de vulnerabilidad municipal [Estimates of highly vulnerable municipios, including municipal vulnerability index]. Tegucigalpa, 2012.

<sup>13</sup> Financed by the IDB, loan 1689/SF-HO provided support to the Government of Honduras with strategic interventions; the strengthening of IAHP economic, social, and cultural development; and in emergencies and extreme events. The role of the government has been limited, and few of its interventions have been culturally relevant.

<sup>14</sup> See optional link 2, Municipios vulnerable to climate change with indigenous and Afro-Honduran populations, and optional link 3, Map of eligible municipios with IAHP populations.

- 1.6 Various studies have shown the climate change effects that impact IAHPs.<sup>15</sup> Water resources are threatened by a reduction in total annual rainfall and the amounts accumulated during dry summer months (July-August); by 2015, water scarcity is expected to have increased in intensity. This would affect IAHPs living in the intermountainous region in the northern, central, and western parts of the country. A study on climate change effects on agriculture<sup>16</sup> shows that adverse effects are already showing up in agricultural production due to changes in temperature and declining rainfall. This could produce considerable economic losses (estimates from 8% and 19% of the 2007 GDP for the year 2100), and 2% to 40% contraction in agricultural earnings. In addition, forests and biodiversity may be affected by the increasingly dry environment, with the possibility of increased fires by 2020 and drastic increases in fires by 2050. Pest attacks on pine trees could increase in intensity by 2015. Other possible consequences are the replacement of tropical rainforests by savannah, and species extinction. Climate vulnerability in marine-coastal areas due to rising sea levels, especially between 2050 and 2100, could have severe impacts in terms of loss of beaches, cliff erosion, saltwater intrusion in bodies of fresh water, and likelihood of ocean flooding, which will impact fishing, infrastructure, and human settlements in those areas.<sup>17</sup>
- 1.7 Human health would be jeopardized by the higher temperatures and changes in rainfall and moisture patterns, which could increase the risk of vector-borne disease transmission (dengue, malaria, Chagas' disease, leishmaniosis), as well as bacterial and parasitic water-borne diseases. Lastly, river floods and overflowing of two types would be the main causes of disasters: (i) river floods, caused by changes in river flows due to high rainfall; and (ii) "urban" floods, occurring in smaller and steeper basins.<sup>18</sup>

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<sup>15</sup> Cruz, Gustavo, et al., Reserva del Hombre and Río Plátano Biosphere Reserve, Environmental Assessment. Tegucigalpa, Honduras. (2002); National Directorate for Climate Change, Ministry of Natural Resources and Environment (SERNA), Current vulnerability of the Aguán River basin in Honduras. 2004. Tegucigalpa, Honduras; Drysdale, Ian et al., Assessment of vulnerability in Honduran communities and identification of needs for adapting to climate change in the island communities of Punta Gorda, Sandy Bay, Utila, Chachahuat, and East End, 2010, Bay Islands, Honduras; Medina, Adela, Women and Climate Change: The Vision of Afro-descendants, Eleventh Meeting of Afro-Honduran Women, ODECO, 2010, La Ceiba, Honduras; Najarro, Tania, et al. What is the impact of natural resource concessions (water, forest, mining) on indigenous territories of Honduras? Tegucigalpa, Honduras. (Undated); Ollantay, Itzamná. Ancestral Chortí Maya agroecological technology challenged by climate change. 2011. Honduras. Available in Spanish at: <http://alainet.org/active/49632&lang=es>; Najarro, Tania, et al. How does climate change affect rural women of Honduras? 2011. Tegucigalpa Honduras; Fraternal Black Organization of Honduras, Strategy to mitigate climate change effects and reduce vulnerability on the Garifuna coast of Honduras, 2010, Iriona, Honduras.

<sup>16</sup> ECLAC. Honduras. Effects of Climate Change on Agriculture. Mexico. 2010.

<sup>17</sup> IDB. Vulnerability and Adaptation to Climate Change. Initial Assessment, Progress, Gaps, and Potential Guidelines for Action in Mesoamerica. September 2010.

<sup>18</sup> See optional link 4, Climate change problems and adaptation and mitigation measures, and optional link 6, Problem frequency by climate vulnerability and IAHP.

- 1.8 Extreme poverty, exclusion, and isolation are barriers to educational development for IAHPs, which constrains their ability to design and implement CCAM actions. Extreme inequalities characterize the education received by IAHPs as compared to the rest of the population, with indicators at a disadvantage in terms both of access and outcomes, which are more significant as the education levels get higher. Nationwide, net enrollment in lower secondary school in rural areas was 26% in 2010. It is estimated that the net enrollment rate in IAHP municipios was 17% in 2010.<sup>19</sup>
- 1.9 Deterioration of the IAHP historical-traditional structure has reduced the presence of traditional authorities in their communities. This can result in a further deterioration of their already limited capacity to negotiate with other stakeholders in society on public policy formulation.<sup>20</sup>
- 1.10 Traditionally, the survival of autochthonous peoples has depended to a large degree on the vitality of the knowledge systems they have developed over many generations. Traditional knowledge and practices are increasingly being left behind in light of the effects of climate change. Traditional knowledge needs to be combined with modern knowledge in order to develop effective methods and tools that help indigenous and Afro-Honduran communities with CCAM.
- 1.11 The regulatory government agency for IAHP affairs is the Ministry for Indigenous and Afro-Honduran Peoples (SEDINAFROH),<sup>21</sup> which promotes IAHP human rights in public policy-making, social inclusion, and equity within the framework of their comprehensive development with cultural identity and in full exercise of citizenship. The DIPA Program is implemented jointly by SEDINAFROH and the Honduran Social Investment Fund (FHIS). The methodology of the PEC-DIPA Program (Projects Executed by the Communities of the Program for the Integrated Development of Indigenous Peoples)<sup>22</sup> has been used successfully by the FHIS to maximize community participation in the design and implementation of projects and to ensure project sustainability.

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<sup>19</sup> Technical Support, Materials, and International Resources (SOTEMARI). Estudios: Diagnóstico de la Oferta del Tercer Ciclo de Educación Básica (TCEB) en Honduras y Modelos de Atención del Tercer Ciclo. [Studies: Assessment of the Supply of Lower Secondary Education (TCEB) in Honduras, and Models for Serving that Level.] March 2012

<sup>20</sup> Faúndez, Alejandra and Valdés, Marco. 2011. Caracterización de la Población Indígena y Afrodescendiente de Honduras. [Description of the Indigenous and Afrodescendant Population in Honduras]

<sup>21</sup> Created by Legislative Decree 203-2010, published in Official Gazette 32364, it launched its operations in January 2011.

<sup>22</sup> The basis of the PEC-DIPA methodology is for communities to prioritize projects, and to execute, manage, monitor, and participate in evaluating them. It aims to empower and strengthen the sustainability of community processes and their organizations, as well as their capacity to manage projects and accelerate their development with identity of indigenous peoples. Each project is consulted with the community and those with majority support are selected. The communities' commitments to project implementation are set out in and agreed upon through the signing of a contract.

- 1.12 The proposed program is compatible with the Bank's 2011-2014 Country Strategy with Honduras (document GN-2645), which underscores that all Bank interventions will attempt to incorporate gender, ethnicity, and cultural relevance considerations. The country strategy also creates opportunities for programming aligned with the Bank's sector priorities as defined in the GCI-9. This operation will contribute to achieving the "climate change, sustainable energy, and environmental sustainability" targets mentioned in the GCI-9. Specifically, the interventions in lower secondary education (TCEB) will contribute to the "poverty reduction and social equity" target.<sup>23</sup> This operation is included in the results matrix of the Country Program Document for interventions in the area of dialogue. The gender approach has been incorporated in a cross-cutting manner.<sup>24</sup>

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

- 1.13 The general objective of the program is to help increase the capacity of indigenous and Afro-Honduran peoples (IAHPs) to adapt to and mitigate climate change, reduce their vulnerability to climate risks that affect their well-being and cultures, and take advantage of any positive opportunity related to climate change adaptation and mitigation.
- 1.14 The program aims to: (i) provide CCAM solutions to the IAHPs in communities vulnerable to climate change and where the DIPA Program has made investments in both productive and human capital development; (ii) facilitate lower secondary education in order to strengthen local human capital and community leadership in targeted indigenous and Afro-Honduran communities by expanding the Tutorial Learning System (SAT); (iii) contribute to building climate change leadership in indigenous and Afro-Honduran communities, with a view to strengthening their inclusion and participation in decision-making related to climate change, and contributing to the efficiency, effectiveness, and sustainability of local adaptation and mitigation strategies; and (iv) systematize and disseminate the lessons learned and good practices of IAHPs on CCAM in order to contribute to improving the practices of public and nongovernmental institutions through modern and traditional knowledge complementarity.
- 1.15 The program components are the following:
- 1.16 **Component 1. CCAM solutions** (US\$1,957,000). This component will finance small community projects, such as, but not limited to, retaining walls, bank protection, small irrigation systems, river fords, hanging bridges, and renewable

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<sup>23</sup> Gaps in the formal education of IAHP young people limit them to the worst jobs, usually in sectors characterized by low productivity, low income, and poor social protection. Health situation of indigenous young people in Latin America: Overview. ECLAC-PAHO. Chile. October 2011.

<sup>24</sup> Gender considerations and gaps were identified, as were actions for addressing them. The CCAM solutions will incorporate the gender approach as provided in the Operating Manual and the PEC-DIPA methodology; the investments in human capital will also incorporate the gender approach in the education curriculum.



- energy solutions,<sup>25</sup> as described in the project menu in the Operating Manual.<sup>26</sup> This short list of eligible projects was prepared on the basis of two criteria: (i) evaluations of the interventions' effectiveness in Honduras or in other countries; or (ii) a favorable outcome in the ex ante cost-benefit analysis performed for this project.
- 1.17 The maximum amount for each project is US\$100,000, and the total for this activity is US\$1,867,000. It will cover preinvestment, investment, and management training costs. In addition, up to US\$90,000 has been budgeted for hiring two specialists who will provide technical support for all the projects that are financed.
- 1.18 The projects will be proposed by the 32 participating communities, based on the menu of eligible projects (see paragraph 1.16), and will be prepared using the PEC-DIPA methodology.<sup>27</sup> Project selection will be based on the following criteria: (i) technical soundness of the proposal; (ii) fulfillment of technical, financial, economic, social, and environmental evaluation criteria, risk management, and gender considerations as defined in the PEC-DIPA methodology; (iii) sustainability for operation and maintenance by the community; and (iv) the existence of effective management capacities. Each community will benefit from at least one proposal, and the Operating Manual will spell out the criteria and distribution among the communities.
- 1.19 **Component 2. Strengthening of human capital on climate change and systematization of good practices** (US\$1,315,420). This component will finance: (i) technical assistance for designing and conducting workshops on CCAM for 120 leaders from the selected communities; (ii) training for 900 young people at the

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<sup>25</sup> The renewable energy investments made under the program will be small, off-grid, and will not impact the position of the Honduran electric power company, or that of the sector market. They can therefore be interpreted as an exception to the general guidelines of the strategy.

<sup>26</sup> Providing infrastructure designed to address the effects of climate change is a global trend (IPCC, 2009). In particular, these projects underscore the need to improve drainage in order to cope with possible floods due to increased frequency of rainfall and/or hurricanes. These projects would avoid higher reconstruction costs in the future (Smith et al., 2011). In Honduras, Hurricane Mitch (1997) caused a 60% loss of public infrastructure, revealing the country's extreme vulnerability to this type of disaster (PAHO, 1999), and the consequent need to adopt early measures to address the more frequent occurrence of this type of event due to climate change. The climate change adaptation projects implemented with USAID support in La Ceiba, Honduras, are an example of this new approach. Improvements in urban drainage through the construction of sewers, water retention systems, dikes, and infrastructure in coastal areas have proven to be widely accepted by the community (USAID, 2008).

<sup>27</sup> Under this methodology, the project cycle begins once the project idea has been identified and the prefeasibility study has been conducted by the FHIS technical team, which visits the community to compile information, confirm the problems in the area, and determine if the necessary technical, social, financial, legal, and environmental conditions exist for executing the project in accordance with principles of simplicity, effectiveness, gender equity, management capacity, accountability, partnership with civil society, and intercultural respect. The FHIS technical team is responsible for preparing project designs, for which it hires specialized consultants or receives support from the FHIS Project Division. Gender analysis is included in project design.

lower secondary level, using the SAT;<sup>28</sup> and (iii) systematization and dissemination of good practices of the IAHPs in CCAM. This component is comprised of the following three subcomponents:

- 1.20 **Subcomponent 2.a. Development of leadership on climate change vulnerability and CCAM mechanisms** (US\$478,420). Under this subcomponent, certified nonformal education<sup>29</sup> will be provided with an education curriculum geared to adapting processes and technologies to reduce the vulnerability of IAHPs to climate change, using a gender and cultural relevance approach. The main topics for these training activities are: climate change awareness, food production and food security, water, housing, basic services, renewable energy, and governance.<sup>30</sup> The budget for this subcomponent includes financing for outreach, instructors, design and publication of educational materials, practical materials, management, and workshop logistics (transportation, room and board), among others.
- 1.21 **Subcomponent 2.b. Training of young people in lower secondary education (TCEB)** (US\$610,000). This subcomponent will use the SAT to facilitate access to this level of education, and to help develop the competencies and leadership young people need to participate in initiatives to promote sustainable community development, including the CCAM activities to be developed with program support. The climate change module to be incorporated into the SAT curriculum will facilitate the learning by doing process through community CCAM practices, given its interactive approach to teaching.<sup>31</sup> The communities served by this

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<sup>28</sup> The SAT is a flexible and participatory methodology that will be implemented by the Asociación de Desarrollo Socioeconómico Indígena Bayán, a nongovernmental organization (NGO) headquartered in the city of La Ceiba engaged in promoting the SAT program.

<sup>29</sup> The nonformal education will comprise six workshops conducted by geographical area, with 20 participants per workshop, for a total of 120 leaders. The new curriculum will include 300 hours (theoretical - practical) and community practice. Participants will receive a certificate issued by the National Commission for the Development of Nonformal Alternative Education (CONEANFO), the government agency responsible for helping to strengthen, develop, and organize the nonformal educational subsystem. Participants will receive a stipend to cover their basic needs during the training. Since only 20% of indigenous leaders are women, gender equity will be sought when selecting leaders to attend the workshops.

<sup>30</sup> Community-level adaptation processes are relatively new but successful cases have already been documented. For example, in Maharashtra, India, agricultural production was improved and resilience to drought strengthened in 150 watersheds through an educational and participatory process organized by Watershed Organisation Trust (Prowse & Snilstveit, 2010).

<sup>31</sup> The environmental education programs will increase the capacity of IAHPs to strengthen their traditional practices for using natural resources as CCAM mechanisms; this is knowledge and technology that can be shared and replicated. For example, some traditional farmers in Mexico, such as the Tzeltal, can identify more than 1,200 plant species and the Mayas of Yucatán, nearly 500 (Posey, 1999). Currently, very few farmers still recall and use bioindicators, such as the behavior of birds and insects, which enabled their ancestors to set the agricultural calendar (Kronik and Verner, 2010). Using their traditional knowledge, the Tawahka indigenous people of Honduras have been able to sustain trade in forest products with people outside their communities (Godoy et al., 1998). The protection and retrieval of this ethnoecological knowledge is valuable for managing ecosystems and for adapting to climate change (Posey, 1999). These topics are compatible with the environmental education curriculum that will be introduced using the SAT methodology.

subcomponent will be selected from the list of 32 eligible municipios, and will preferably be communities where CCAM projects will be executed, provided the following can be confirmed: student demand for the training, community involvement in and commitment to the SAT methodology, and its sustainability.<sup>32</sup> In selecting the 900 young people, special attention will be paid to enlisting the participation of men, since men's enrollment rates are lower than women's. The budget for this subcomponent includes financing for the design and publication of primers and audiovisual materials on CCAM, training for tutors and coordination team on the contents of the SAT, equipping of the centers, and tutors' and consultants' fees. The agreements with the Ministry of Education will establish that, once the project has ended, the instructors' salaries will be financed by that Ministry; this will be spelled out in the agreement to be signed, as in the case of earlier projects and according to the framework agreement signed by the Ministry of Education and the Asociación de Desarrollo Socioeconómico Indígena Bayán.

- 1.22 **Subcomponent 2.c. Systematization and dissemination of IAHPs' good practices for CCAM (US\$227,000).** The aim is to use the traditional practices and knowledge of indigenous and Afro-Honduran communities as tools to strengthen solutions based on modern knowledge. It is hoped that the knowledge and practices will be used in community, local, and national projects and planning on CCAM matters in order to contribute to increasing the resilience<sup>33</sup> of communities in areas vulnerable to climate change. SEDINAFROH will be in charge of systematizing the information, hiring consultants for this purpose, along with the communities as the key actors in the process. The subcomponent will finance the preparation of documentaries, articles for the media, and university studies on activities financed by the program.<sup>34</sup> It will also cover the cost of meetings with the Advisory Board of the IAHPs to strengthen dialogue among them, the government, nongovernmental institutions, and academic and research organizations for the purpose of harmonizing the knowledge and enriching the learning process with the systematized information.<sup>35</sup> All this information will be made available through a link on SEDINAFROH's website, facilitating its dissemination and even the

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<sup>32</sup> The Tutorial Learning System Training Centers (CEFOSAT) should be sustainable and permanent, and be authorized by the Ministry of Education (Executive Agreement 1090-SE-09, June 2009). A total of 142 centers are in operation in 12 departments. The area of influence of one CEFOSAT is approximately seven communities (at a walking distance of one hour or less). The tutor is a professional who lives in the community where the SAT operates. Taking into account the location of the CEFOSATs, six existing centers will be used, and six more will be opened to cover the municipios to be selected.

<sup>33</sup> Resilience refers to "the amount of change a system can undergo without changing state" (IPCC, 2001).

<sup>34</sup> Such as: Pan-American Agricultural School, Escuela Nacional de Ciencias Forestales [National School of Forestry Sciences], Universidad Nacional Autónoma de Honduras [National Autonomous University of Honduras], and Universidad Nacional de Agricultura [National Agricultural University], among others.

<sup>35</sup> The Advisory Board is a forum for discussion, information, and consultation among the representatives of the indigenous peoples and the co-executing agencies. The Board was created through the DIPA Program Participation Agreement to facilitate consultation and consensus-building between the program's beneficiary communities and the government.

creation of practice communities, which would make it possible to more clearly visualize program outcomes.

**Table I-1. Detailed budget (US\$)**

Activity	IDB (NDF) <sup>36</sup>	%
<b>1. Component 1. CCAM solutions</b>	<b>1,957,000</b>	<b>45</b>
1.a Proposals	1,867,000	
1.b Technical support	90,000	
<b>2. Component 2. Strengthening of human capital on climate change and systematization of good practices</b>	<b>1,315,420</b>	<b>30</b>
Subcomponent 2.a. Development of leadership in climate change vulnerability and CCAM mechanisms	478,420	
Subcomponent 2.b. Training for young people in lower secondary education (TCEB)	610,000	
Subcomponent 2.c. Systematization and dissemination of IAHPs' good practices for CCAM	227,000	
<b>3. Program management</b>	<b>678,000</b>	<b>15</b>
3.a SEDINAFROH management	399,000	
3.b FHIS management	279,000	
<b>4. External evaluation and audit</b>	<b>157,500</b>	<b>4</b>
<b>5. Contingencies</b>	<b>60,300</b>	<b>1</b>
5.a SEDINAFROH contingencies	37,108	
5.b FHIS contingencies	23,192	
<b>6. Administration fee (5%)<sup>37</sup></b>	<b>219,380</b>	<b>5</b>
<b>Total</b>	<b>4,387,600</b>	<b>100</b>

- 1.23 **Program management** (US\$678,000). Under this category, the following activities will be financed in support of program management, both at SEDINAFROH and at the FHIS: (i) technical coordination; (ii) financial administration for both co-executing agencies, and for procurement only at SEDINAFROH; and (iii) office materials, travel expenses, and transportation for supervision purposes.
- 1.24 **External evaluation and audit** (US\$157,500). This will finance the annual financial audits of the two components executed by SEDINAFROH and the FHIS, as well as the final program evaluation.

<sup>36</sup> The final amount in United States dollars depends on the exchange rate on the day the funds are received by the Bank and converted to United States dollars, pursuant to the administration agreement between the NDF and the Bank. If, once converted to dollars, the final amount of the NDF contribution is other than the amount used to prepare this budget, due to exchange rate fluctuations, the budget will be duly adjusted by the project leader. An adjusted budget will be prepared by the team leader to take into account the exchange rate used for the NDF contribution.

<sup>37</sup> Based on the administration agreement signed by the NDF and the Bank, these resources will be administered by the Bank, which will charge a 5% administration fee on the total NDF contribution once it has been converted to dollars.

- 1.25 **Cost of the operation.** The Nordic Development Fund (NDF) will provide US\$4,387,600<sup>38</sup> in financing to supplement the investments of the DIPA Program, which amount to US\$11,153,000 (Table I-1).

**C. Key results matrix indicators**

- 1.26 Given the nature of the program, the results matrix will measure indicators for each component (Annex II).
- 1.27 The following will be measured for Component 1: (i) the percentage increase in agricultural productivity in communities where irrigation solutions have been introduced; (ii) the increase in renewable energy attributed to renewable energy solutions (kW/day generated); and (iii) the increase in the number of men and women that benefit from adaptation and mitigation works.
- 1.28 With regard to Component 2, the following will be measured: (i) the strengthening of the communities' capacity for adaptation to reduce risks to and losses of material goods attributed to climate change; (ii) net enrollment rate of IAHPs in lower secondary education (%); (iii) school attendance rate of IAHPs in lower secondary education (%); and (iv) number of key government, civil society, and external cooperation actors that take the good practices of IAHPs for CCAM into account and use them in local community or national projects.

## II. FINANCING STRUCTURE AND RISKS

**A. Financing instruments**

- 2.1 This investment grant project will be financed by the Nordic Development Fund (NDF), through a Project Specific Grant (PSG) that will supplement the investments made by the DIPA Program.
- 2.2 Table II-1 shows a preliminary estimate of the **cash flow arrangement based on the program's final execution plan, which will be updated as a condition precedent to the first disbursement.**

**Table II-1. Annual cash flow (US\$)**

Year 1	Year 2	Year 3	Year 4	Year 5	Total
1,273,688	1,403,250	1,158,100	408,900	143,662	4,387,600
29%	32%	26%	9%	4%	100%

**B. Environmental and social safeguard risks**

- 2.3 The program will contribute to improving living conditions of IAHPs, who comprise low-income communities. Since the cost of adaptation and mitigation

<sup>38</sup> Calculated with the exchange rate of 1.25360 of 4 July 2012.

works is low<sup>39</sup> and impacts are easily identifiable, simplified environmental impact assessments<sup>40</sup> will be conducted, and the corresponding socioenvironmental management plans<sup>41</sup> will be implemented. This will be set out in the Operating Manual, as will proactive measures to strengthen the program's benefits for women, and actions to ensure occupational safety measures are in place for the construction of works. A manual on environmental and social management, safety, and occupational health will be also prepared, and will include measures to mitigate possible adverse socioenvironmental impacts during the preinvestment and post-investment stages of projects. It will also address entry and exit/interaction strategies in indigenous and Afro-Honduran settings, as well as measures to prevent accidents during the construction of the works. The manual is to be completed before infrastructure works can begin. There are no projects involving resettlement of people and their communities on the project menu.

- 2.4 In accordance with the Environment and Safeguards Compliance Policy (OP-703), this program has been classified as a category "C" operation. Because the operation's activities will have positive impacts and will benefit vulnerable indigenous and Afro-Honduran communities, it will be fulfilling and promoting the Disaster Risk Management Policy (OP-704), the Operational Policy on Gender Equality in Development (document GN-2531-10), and the Indigenous Peoples Policy (OP-765).

### C. Fiduciary risks

- 2.5 The risk of the operation is medium, and risks are associated with SEDINAFROH's operating capacity and familiarity with Bank policies. The main fiduciary risks and respective mitigation measures are described in the document Fiduciary Agreements and Requirements (Annex III). Financial risk will be mitigated by creating an executing unit with project financial management capacity, autonomy in the use of country financial systems, and a strengthened internal control function **by implementing the executing units of externally-funded projects (UEPEX) module, which is a condition precedent to the first disbursement.** In addition, the financial audit and ex post review of disbursements will be handled by external audit firms acceptable to the Bank. Procurement risks will be mitigated by hiring

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<sup>39</sup> The cost of works amounts to a maximum of US\$100,000 and includes preinvestment costs, investment, and management training. The environmental classification is 0 to 4. Category 1 projects only require environmental registration (specific description, and publication in a daily newspaper); category 2 projects require a qualitative environmental assessment. The DIPA Program's experience involved category 0 projects (1), category 1 projects (45), and category 2 projects (4), because they are located in reserves or due to the specific nature of the projects.

<sup>40</sup> Any archaeological findings will be taken into account (policy B.9), especially in the Copán area where there is a high likelihood of fortuitous archaeological discoveries.

<sup>41</sup> An interagency cooperation agreement exists between the FHIS and SERNA, in force until 27 January 2014, for simplifying and streamlining legally required procedures; obtaining environmental records, authorizations, and licenses; and control and monitoring, keyed to the environmental classification according to prevailing standards for projects executed by the FHIS, through the adoption of interagency cooperation mechanisms.

personnel with expertise in executing procurements pursuant to IDB procedures, performing full ex ante supervision during the first year of operation, and strengthening capacities with regard to the Bank's fiduciary procedures. In addition, a follow-up and monitoring system will be established that includes procurement planning with the Procurement Plan Execution System (SEPA).

#### **D. Other risks**

- 2.6 An institutional risk may arise due to the multisectoral nature of adaptation and mitigation solutions, and the need for both the nonformal and formal education to be certified by CONEANFO and the Ministry of Education, respectively.<sup>42</sup> This risk has been addressed by preparing separate agreements between the FHIS and SEDINAFROH and the institutions that will provide the services, spelling out the responsibilities of each. **A condition precedent to the first disbursement is the approval of the program's Operating Manual, which will include an administrative fiduciary and internal control manual for SEDINAFROH.**
- 2.7 Another possible risk may be the limited capacity of community organizations to design, implement, and maintain for CCAM projects, as well as for management and accountability. This will be mitigated with: (i) training in management, financial administration, and internal control based on the guidelines prepared for the DIPA Program; (ii) support for FHIS regional staff (inspectors and auditors from the Control and Monitoring Division); (iii) participation of the FHIS's program coordination unit (PCU) in designing the CCAM solution proposals, which will include maintenance plans;<sup>43</sup> and (iv) ongoing support from the technical personnel hired for supervision.

### **III. IMPLEMENTATION AND ACTION PLAN**

#### **A. Summary of implementation measures**

- 3.1 **Execution arrangement.** A co-execution arrangement between SEDINAFROH and the FHIS is proposed for program execution. The following link, on the roles of the participating agencies, defines the relationship between them: <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36934037>.
- 3.2 The beneficiary will be the Republic of Honduras. Given the co-execution arrangement, a "Program Executive Committee"<sup>44</sup> will be set up, in charge of

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<sup>42</sup> CONEANFO's regulations for the issuance of certificates, attendance, and assessment of learning will serve as the basis for preparing the interagency agreement. For its part, the SAT has been approved by the Ministry of Education through Standing Operating Agreements 1151-SE-02 and 4596-SE-02.

<sup>43</sup> These plans are prepared in coordination with local authorities to ensure support during implementation.

<sup>44</sup> Made up of: the Minister of SEDINAFROH, who will serve as chair; the Minister of the FHIS; a representative of SERNA, who will participate as an observer; the president of the Indigenous Peoples' Confederation; the coordinator of SEDINAFROH's project administration unit; the coordinator of the PCU/FHIS; and the coordinator of the PCU/SEDINAFROH, who will serve as secretary of this body and will convene its meetings. The minimum quorum required for meetings of the committee to proceed is four members.

- leading and maintaining the program's strategic orientation, both with regard to programming and to operations. This committee will also oversee supervision activities and internal and interagency coordination, and maintain the conceptual connection between the policy on autochthonous peoples and program execution. **Under this arrangement, SEDINAFROH will establish a program coordination unit (PCU) made up of the following key personnel: general coordinator, procurement specialist, and administrative/financial specialist. In addition, the FHIS will establish a PCU with the following key staff: coordinator and financial/administrative specialist. In addition, agreements will be signed for the execution and transfer of resources between the Ministry of Finance (SEFIN) and SEDINAFROH, and between SEFIN and the FHIS. Both are conditions precedent to the first disbursement.**
- 3.3 **The relationship between SEDINAFROH and the FHIS in Component 1 will be established in an interagency implementation agreement, the signature of which is a condition precedent to the first disbursement.**
- 3.4 SEDINAFROH, through its PCU, will be responsible to the Bank for execution of the program as a whole, in collaboration with its Project Administration Unit (UAP).<sup>45</sup> The PCU/SEDINAFROH will serve as the official liaison with the Bank for the flow of information and the required technical reports. It will also be responsible for consolidating the follow-up and monitoring of program execution. PCU/SEDINAFROH will hire three consultants to support its work in the areas of program coordination, procurement,<sup>46</sup> and administrative and financial matters. Specialized consultants will be hired to systematize and disseminate good climate change practices.
- 3.5 For its part, the functions of the UAP/SEDINAFROH will include general collaboration and monitoring of program execution. It will strengthen internal coordination by streamlining procedures required by the Ministry's senior management or its middle-management levels. The different roles and responsibilities will be spelled out in the Operating Manual.
- 3.6 The FHIS will create a PCU for the purpose of executing Component 1, which includes financing for hiring its key personnel: the coordinator of the component and an administrative/financial specialist. Two specialists will be hired to supervise and monitor these projects. The PCU/FHIS will be responsible for preparing proposed CCAM solutions in accordance with the PEC-DIPA methodology. It will perform its activities as part of the FHIS project cycle, which involves all its line divisions; it will also sign contracts with the community organizations, IAHP federations, or the municipal departments that execute the CCAM projects.

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<sup>45</sup> The UAP is a permanent part of SEDINAFROH's institutional structure.

<sup>46</sup> The procurement specialist will be hired only for 12 months, at the beginning of the program, to manage the procurement processes, and the contract will be by output.



- 3.7 An advantage of the execution arrangement is that it will contribute to strengthening SEDINAFROH's executive capacities. In addition, further nonreimbursable technical cooperation funding will be sought to finance the institutional strengthening plan recommended by the Institutional Capacity Assessment.<sup>47</sup>
- 3.8 **Procurement.** Goods and services will be procured, and consulting services selected and contracted, in accordance with the Policies for the procurement of works and goods financed by the IDB (document GN-2349-9), and the Policies for the selection and contracting of consultants financed by the IDB (document GN-2350-9). Procurement will be reviewed ex post and ex ante as specified in the Fiduciary Agreements and Requirements (Annex III). The procurement plan is to be updated annually.
- 3.9 SEDINAFROH may use single-source selection to contract the Asociación de Desarrollo Socioeconómico Indígena Bayán, for up to a maximum of US\$610,000, for education of young people at the lower secondary school level, since only that association is qualified and has experience of exceptional worth, in accordance with the provisions of paragraph 3.10, subparagraph (d), of the Policies for the selection and contracting of consultants financed by the IDB (document GN-2350-9). In addition, it holds the rights to implement the SAT model, which it received from the Foundation for Scientific Development and Application (FUNDAEC), the institution that originally designed and developed it in Colombia. The SAT is the format best suited for lower secondary education in indigenous and Afro-Honduran communities because it is tailored specifically for use in rural areas, uses an agricultural and community development approach, and includes quality educational settings that have proven to improve educational performance, according to the study *The Impact of Alternative Secondary Schools on Rural Adolescents: Evidence from Honduras*.
- 3.10 The FHS may use the community participation method referenced in paragraph 3.17 of the Policies for the procurement of works and goods financed by the IDB (document GN-2349-9) for implementing the CCAM projects under Component 1.

## **B. Summary of results monitoring agreements**

- 3.11 SEDINAFROH will prepare the program's semiannual monitoring reports, to include: (i) a description of the activities implemented during the six-month period; (ii) a description of the activities planned for the next six-month period; (iii) a version of the results matrix with data on outputs and costs for the six-month period reported on, in accordance with the format of the Bank's project monitoring report (PMR) system; (iv) the progress made in designing and implementing the program's descriptive evaluation; and (v) a brief description of fiduciary processes (financial flows of the previous six-month period, expected disbursements of the

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<sup>47</sup> See optional link 7: Institutional Capacity Assessment (ICAS) of SEDINAFROH.

next six-month period, and any other relevant information on the procurement process).

- 3.12 **Cost-benefit analysis and final evaluation.** In order to estimate the rate of return and net present value of the program, an ex ante cost-benefit analysis was performed to identify and quantify its cost and benefit flows. The result was a rate of return between 15.98% and 27%, depending on the type of project and sector.<sup>48</sup> In addition, a special contractual condition for the program is a final external and independent evaluation, to be performed once 80% of the resources of the contribution have been committed. The evaluation will examine: (i) program outcomes, measured in terms of the achievement of targets and the performance of results matrix indicators; (ii) the processes and interventions in terms of their importance, relevance, efficiency, and effectiveness with regard to the gender approach; and (iii) the management of the resources of the contribution.
- 3.13 **External audit.** During the execution period, SEDINAFROH will submit the program's consolidated annual financial statements to the IDB within 120 days after the close of the corresponding fiscal year, with preliminary reports through 30 June to be presented within 60 days of the end of the first six-month period each year. The financial statements need only cover the program aspects funded by the NDF. The audit is to be performed by an independent accounting firm acceptable to the IDB, in accordance with the guidelines established in the terms of reference for the external audit of IDB-financed projects.

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<sup>48</sup> See Calderón, Silvia. 2012. Evaluación Socioeconómica de HO-X1019 [Socioeconomic evaluation of HO-X1019], July. <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36999360>.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	(i) Lending to small and vulnerable countries; (ii) Lending for poverty reduction and equity enhancement, and (iii) Lending to support climate change initiatives, renewable energy and environmental sustainability.		
Regional Development Goals	(i) Share of youth ages 15 to19 who complete ninth grade; (ii) Countries with planning capacity in mitigation and adaptation of climate change; (iii) Annual reported economic damages from natural disasters, and (iv) Annual growth rate of agricultural GDP (%).		
Bank Output Contribution (as defined in Results Framework of IDB-9)	(i) Students benefited by education projects (girls, boys); (ii) Climate change pilot projects in agriculture, energy, health, water and sanitation, transport, and housing, and (iii) Farmers given access to improved agricultural services and investments.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2645	The project is not aligned with a specific objective of the Country Strategy Results Matrix.	
Country Program Results Matrix	GN-2661-4	The project is included in 2012 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	7.6		10
3. Evidence-based Assessment & Solution	6.1	25%	10
4. Ex ante Economic Analysis	8.5	25%	10
5. Monitoring and Evaluation	5.7	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood	Medium		
Environmental & social risk classification	C		
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, and Internal Audit. Procurement: Information System.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	The project will seek gender equality in the formation of leaders, since only 20% are reported women leaders in the communities. In the training of young people, preference will be given to young men as they report lower enrollment rates.	
Labor	Yes	The institutional capacity of the SEDINAFROH will be strengthened by widening the capacities and abilities of the Ministry's human talent. In order to obtain the skills necessary for active participation in community life and work, certified training will be provided to community organizations that execute ACC and MCC projects, to the leadership, and the youth in the Third Cycle of Basic Education.	
Environment	Yes	The project will contribute to increase adaptation and mitigation to Climate Change.	
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	A technical assistance will be prepared to support the institutional strengthening of SEDINAFROH based on the Strengthening Plan prepared under the Institutional Capacity Analysis.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.			

The Objective of the project is to contribute to increase the adaptation and mitigation capacity to climate change of indigenous and afro-Honduran populations. Problems and their causes are identified and discussed, and some empirical evidence of the main determinants of the problem is provided. The result matrix lacks vertical logic and key indicators are not SMART.

The project documentation includes a cost benefit analysis conducted for a sample of potentially eligible types of investments, however some do not include all resource costs generated by the project during its lifetime. The Monitoring and Evaluation Plan proposes a Before-After method to evaluate results.

The risks currently identified are rated for likelihood and mitigation measures are identified.

## RESULTS MATRIX<sup>1</sup>

<b>General objective</b>	<p>The general objective of the Indigenous and Afro-Honduran Peoples and Climate Change Program is to help increase the capacity of indigenous and Afro-Honduran peoples to adapt to and mitigate climate change, reduce their vulnerability to climate risks that affect their well-being and cultures, and take advantage of any positive opportunity that arises in relation to climate change adaptation and mitigation.</p> <p>The program intends to: (i) provide adaptation and mitigation solutions for indigenous and Afro-Honduran peoples (IAHPs) in communities at greater risk and where investments have been made in both productive and human capital development financed by the DIPA Program; (ii) facilitate lower secondary education (TCEB) in order to strengthen local human capital in priority IAHP communities, using an alternative model, the Tutorial Learning System (SAT); (iii) promote climate change leadership development in indigenous and Afro-Honduran communities in order to encourage their inclusion and participation in community decision-making related to climate change, and to strengthen the efficiency, effectiveness, and sustainability of local adaptation and mitigation strategies; and (iv) systematize and disseminate lessons learned and the good practices of the IAHPs related to climate change adaptation and mitigation, in order to contribute to improving the practices of public and nongovernmental institutions through a combination of scientific, technical, and traditional knowledge (of the indigenous and Afro-Honduran population) related to climate change adaptation and mitigation.</p>							
Indicator	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Total	Observations
<b>Impact of the operation</b>								
<b>Impact indicators</b>								
The program strengthens the human and physical capital of indigenous and Afro-Honduran communities by: (i) improvement of the educational competencies of indigenous and Afro-Honduran young people and leaders using a climate change focus, in order to contribute to the efficiency, effectiveness, and sustainability of local climate change adaptation and mitigation strategies; and (ii) interventions in infrastructure to improve their resilience to climate change.								
Human capital in the communities improved by the knowledge and education competencies of leaders and young people so as to encourage their inclusion and participation in decision-making related to climate change and community practices on climate change adaptation and mitigation (CCAM) <sup>2</sup>	2						5	<p>Capacity perception index Score (1-5):</p> <ol style="list-style-type: none"> <li>1. No capacity built</li> <li>2. Initial awareness raised (i.e., workshops, seminars).</li> <li>3. Training with practical application</li> <li>4. Knowledge effectively transferred (i.e., certification)</li> <li>5. Ability to apply or disseminate acquired knowledge.</li> </ol> <p>The information will be gathered through a monitoring survey by the external firm that will conduct the final evaluation.</p>

<sup>1</sup> Targets may vary, based on the response of the target population.

<sup>2</sup> An environmental training and education process enables the community to participate effectively in dialogues to understand climate change risks and evaluate the best CCAM strategies, such as better zoning, risk management, and effective decision-making (Smith et al., 2011; USAID, 2008). Stronger leadership contributes to better local governance, which is essential for introducing adaptation processes in the communities (Kronik and Verner, 2010). Leadership and participation guarantee the continued strong social cohesion that characterizes indigenous peoples (Kronik and Verner, 2010), also essential for local governance.

Number of municipios resilient to climate change from among the program's communities (number of beneficiary municipios /number of municipios with IAHPs (%) <sup>3</sup>	40						+20PP	The numerator will be updated to take administrative data into account; the source of the denominator will be constant (to be reported in semiannual reports).
<b>Component 1. CCAM solutions</b>								
<b>Output indicators</b>								
Irrigation projects implemented in indigenous and Afro-Honduran communities	0	2	5	4	0	0	11	Total number of small-scale community irrigation projects proposed by the communities, using the PEC-DIPA methodology, that will contribute to CCAM. Information will be collected routinely by the PCU/FHIS, and through the ongoing supervision of the works.
Renewable energy projects implemented in indigenous and Afro-Honduran communities	0	0	2	2	0	0	4	Total number of renewable energy projects proposed by the communities, using the PEC-DIPA methodology, that will contribute to CCAM. Information will be collected routinely by the PCU/FHIS, and through the ongoing supervision of the works.
Implementation of risk-prevention infrastructure projects implemented in indigenous and Afro-Honduran communities	0	0	7	4	0	0	11	Total number of small risk-prevention projects proposed by the communities, using the PEC-DIPA methodology, that will contribute to CCAM. The information will be routinely collected by the PCU/FHIS, and through the ongoing supervision of the works.

<sup>3</sup> The baseline corresponds to autochthonous peoples' leaders who received training through a workshop on the harmonization of traditional, indigenous, local, and western knowledge related to disaster risk reduction (DRR) and climate change adaptation and mitigation (CCAM). CARE. 2011. It is estimated that 60% of those trained replicate the education received, according to information obtained by the National Commission on Nonformal Alternative Education when monitoring similar programs.

Outcome indicators <sup>4</sup>								
Increase in agricultural productivity in communities that implement irrigation solutions <sup>5</sup>	70qq/mz						120qq/mz	Percentage increase in the average productivity index of parcels that receive irrigation through the program. Reported in field reports, stored in the database, and validated through the evaluation surveys.
Increase in the production of energy from renewable energy solutions <sup>6</sup> (kWh/day generated)	0	0	0	0	0	0	249.52	Increase in the production of renewable energy (kWh/day generated) in the communities (4) that benefit from various renewable energy solutions through the program. Reported in the field reports, stored in the database, and validated through the evaluation surveys.
Increase in the number of men and women benefitting from adaptation and mitigation works <sup>7</sup>	0	510	3,570	2,550	0	0	6,630	Data will be obtained from the designs of the works. Reported in the field reports and stored in the database.
<b>Component 2. Strengthening of human capital on climate change and systematization of good practices</b>								
<b>Subcomponent 2a Development of leadership on climate change vulnerability and CCAM mechanisms</b>								
<b>Output indicators</b>								
Indigenous and Afro-Honduran leaders (M/W) receive certification in CCAM to reduce the effects of climate change vulnerability in their communities	0	20	48	28	0	0	96	Number of indigenous and Afro-Honduran leaders (M/W) that have taken and passed the entire CCAM course. Information will be collected from consultants' reports delivered to PCU/SEDINAFROH pursuant to the terms of reference for the consulting firm. The relevant information will be entered in the database.

<sup>4</sup> Adaptation processes identified at the community level (community-based adaptation) are relatively new and their impact assessments may require new qualitative and participatory methodologies. However, one successful example of this type of approach is the improvement in agricultural production and the increase in drought resilience in 150 watersheds or 160,00 hectares in Maharashtra, India, as a result of community interaction and the involvement of the Watershed Organisation Trust (WOTR) (Prowse & Snilstveit, 2010). Thus, the community approach is consistent with the actual circumstances of the IAHPs.

<sup>5</sup> Current estimated average yield without irrigation of a 2-manzana prototype bean farm is 70qq/mz; with irrigation the yield increases 71%. (Source: Socioeconomic analysis of the Program and SAG-DICTA information).

<sup>6</sup> According to the Forty-first Permanent Multipurpose Household Survey, National Statistics Institute-INE, 33.5% of homes in rural areas are lit by: candles, oil lamps, gas lamps, and ocote pine. The communities targeted for intervention do not have access to electricity and even less to renewable energy.

<sup>7</sup> It is estimated that each community project will benefit approximately 255 people, or 50 families. Data calculated on the basis of an average 5.1 people per household. Source, INE. Forty-first Permanent Multipurpose Household Survey. 2011.

Outcome indicators								
Communities' capacity for adaptation strengthened for reducing tangible risks and losses to material goods due to climate change <sup>8</sup>	4	12	29	17	0	0	58	Number of IAHP leaders (M/W) who disseminate scientific, technical, and traditional knowledge (of indigenous and Afro-Honduran populations) on CCAM. Reported in field reports, stored in the database, and validated through the evaluation surveys.
<b>Subcomponent 2b. Training of young people in lower secondary education (TCEB)</b>								
Outcome indicators								
Young people (M/W) in lower secondary education (7 <sup>th</sup> , 8 <sup>th</sup> , and 9 <sup>th</sup> grades) who receive training in the CCAM module each year, through the SAT <sup>9</sup>	0	0	300	600	900	0	900	Number of young people (M/W) in lower secondary education (7 <sup>th</sup> , 8 <sup>th</sup> , and 9 <sup>th</sup> grades) who received training in the CCAM module each year (three academic blocks per year), with the SAT model. Information will be collected from Asociación Bayán's reports to the PCU/SEDINAFROH, pursuant to the terms of reference. The relevant information will be entered in the database.
Students who have taken and passed the entire lower secondary program (TCEB) with the SAT model	0	0	0	0	300	0	300	Number of students (M/W) who have taken and passed the entire TCEB program with the SAT model, including the climate change module. Information will be collected from reports of Asociación Bayán delivered to PCU/SEDINAFROH pursuant to the terms of reference. The relevant information will be entered in the database.

<sup>8</sup> The baseline corresponds to autochthonous peoples' leaders who received training through a workshop on the harmonization of traditional, indigenous, local, and western knowledge on disaster risk reduction (DRR) and climate change adaptation and mitigation (CCAM). CARE. 2011. It is estimated that 60% of those trained replicate the education received, according to information obtained by the National Commission on Nonformal Alternative Education while monitoring similar programs.

<sup>9</sup> The SAT model is relatively cost-effective because it seems to offer greater benefits in terms of learning at a similar cost per student. The SAT program is a promising approach for expanding secondary education in isolated villages of Honduras. McEwan, Patrick J. *et al*, The Impact of Alternative Secondary Schools on Rural Adolescents: Evidence from Honduras. May 2012. Honduras.

Outcome indicators								
Net enrollment rate of indigenous and Afro-Honduran students in lower secondary education (%)	17						+1PP	Percentage increase in the net enrollment rate in lower secondary education (7 <sup>th</sup> , 8 <sup>th</sup> , and 9 <sup>th</sup> grades) of young people (M/W) between 13 and 17 years of age in eligible indigenous and Afro-Honduran communities. Information will be obtained from education statistics of the Ministry of Education, and validated through the program surveys.
Rate of school attendance of indigenous and Afro-Honduran students in lower secondary education <sup>10</sup> (%)	67						+7PP	Percentage increase in the attendance rate in lower secondary education with the SAT model (7 <sup>th</sup> , 8 <sup>th</sup> , and 9 <sup>th</sup> grades) of young people (M/W) between 13 and 17 years of age in eligible indigenous and Afro-Honduran communities. Information will be obtained from the education statistics of the Ministry of Education, and validated through the program surveys.
<b>Component 2. Strengthening of human capital on climate change and systematization of good practices</b>								
<b>Subcomponent 2c. Systematization and dissemination of IAHPs' good practices for CCAM</b>								
Output indicators								
Good practices of IAHPs for CCAM implemented and systematized	0	0	16	15	15		46	Number of documents (12 documentaries, 4 studies, 30 articles published) on good practices of IAHPs that can be used for community, local, and national programming related to CCAM. Information will be collected from consultants' reports delivered to PCU/SEDINAFROH. The relevant information will be entered in the database.

<sup>10</sup> Of the different flexible education programs, the SAT model has the lowest dropout rates.



Outcome indicators								
Key government, civil society, and external cooperation actors take into account the good practices of IAHPs for CCAM and use them in community, local, or national projects <sup>11</sup>	1	0	0	6	3		9	Number of key government, civil society, and external cooperation actors that take into account the good practices of IAHPs for CCAM and use them in community, local, or national projects. Information will be collected by the subcomponent's consultants as part of ongoing monitoring activities, and included in the program's semiannual reports.

<sup>11</sup> Human health project that includes ancestral practices of the Pech people, carried out in the community of Vallecito, Culmí, and designed by the NGO CDIH-INDECOR.

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

<b>Country:</b>	Honduras
<b>Project number:</b>	HO-X1019
<b>Name:</b>	Indigenous and Afro-Honduran Peoples and Climate Change
<b>Executing agency:</b>	Ministry for Indigenous and Afro-Honduran Peoples (SEDINAFROH) and Honduran Social Investment Fund (FHIS)
<b>Fiduciary team:</b>	Nalda Morales (Financial Management, FMP/CHO); Juan Carlos Martell (Procurement, FMP/CHO)

### I. EXECUTIVE SUMMARY

- 1.1 The institutional capacity of Honduras's public sector is a risk factor for the implementation of projects to be financed as part of the Bank's current strategy with the country. To mitigate this risk, the Bank continues to provide technical support and to implement activities to strengthen different aspects of the public sector, especially as pertains to improving country public finance management systems, in coordination with government authorities and other international organizations working in the country.
- 1.2 With regard to fiduciary management systems, the last diagnostic assessments of Honduras's **public financial management systems** show that considerable progress has been made with regard to good practices and international standards. In particular, progress has been made in the modernization of the institutional framework and implementation of the Integrated Financial Management System (SIAFI) and the Unified Treasury Account (CUT), decentralization of the treasury function, and the use of SIAFI and the UEPEX (executing units of externally-funded projects) module for financial management of projects. Also, a "Goods" subsystem is in place for the control of assets. The government's audit, internal control, and external control systems are not used in the execution of the Bank's portfolio; rather, external audit services are used. With regard to the **public procurement system**, while the country has strengths that were identified in the 2010 OECD/MAPS assessment, especially a legal framework aligned with the majority of best international practices, challenges still exist for reaching standards that will allow the Bank to use the country system for the operations it finances.

### II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 The operation will be implemented by SEDINAFROH and the FHIS. At present, both institutions are executing Bank-financed operations, and they co-execute the DIPA Program. SEDINAFROH receives UNDP support under an agreement

signed with the Bank. According to the agreement, program funds are transferred to the special UNDP account, and the UNDP arranges for payments to be made through its own system. In the case of the FHIS, projects receive institutional support for cross-cutting topics; it has an executing unit for special matters, and it makes full use of the Integrated Financial Management System (SIAFI). Although both institutions have internal audit units and internal control committees, they will not be used for the program since they are under-resourced and are in the process of implementing the directives of their standard-setting agency, ONADICI.<sup>1</sup> The case is similar for external control, which is conducted by the State Audit Office, as its audit capacity only allows it to cover 50% of the central government's budget.<sup>2</sup>

- 2.2 There are no plans to use the country procurement systems for the operation. The executing agencies will follow the IDB's procurement policies, use national public bidding documents agreed upon with the Bank, and publish specific procurement notices for local processes at [www.honducompras.hn](http://www.honducompras.hn).

### III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 Based on the information available, the fiduciary team determined that the overall risk of the program, given the combined execution arrangement, is MEDIUM. The conclusion is based mainly on the Ministry's operating capacity and knowledge of Bank policies, and the mitigation measures identified for the institutions that will execute fiduciary processes. In SEDINAFROH, financial risk will be mitigated by creating an executing unit with autonomy in the use of the SIAFI and the UEPEX reporting module; hiring personnel with financial expertise; strengthening the internal control function; and hiring an external audit firm acceptable to the Bank and paid for with resources of the financing to evaluate internal control, financial audit, and the semiannual ex post review of disbursements. This is because both executing agencies are familiar with the implementation model as they are currently co-executing loan 1689/SF-HO, and because the operation involves few transactions, essentially those stemming from the administration of the contract with Asociación de Desarrollo Socioeconómico Indígena Bayán, in SEDINAFROH's case. Moreover, training will be provided on the use of country systems and the financial management of projects. The FHIS has the know-how and capacity to carry out the fiduciary processes for which it is responsible.
- 3.2 With regard to procurement, the main risks are due to SEDINAFROH's lack of familiarity and lack of experience with Bank procedures. This will be mitigated by hiring staff specializing in procurement following IDB procedures, ensuring full ex

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<sup>1</sup> Oficina Nacional de Desarrollo Integral del Control Interno [National Office for Comprehensive Development of Internal Control] (ONADICI), Consultant Edison E. Estrella R., Informe de Resultados de la Evaluación del Subsistema de Auditoría Interna (SSAI), conforme la Guía del Banco Interamericano de Desarrollo (BID) [Report on the findings of the evaluation of the Internal Audit Subsystem according to IDB guidelines], December 2011.

<sup>2</sup> Informe de Desempeño de la Gestión de las Finanzas Públicas [Report on Public Finance Management Performance], 2011.

ante supervision during the first year of the operation, holding a training workshop, and updating the capacities of hired staff on the Bank's fiduciary procedures. In addition, a follow-up and monitoring system will be established, which will cover planning of the program's procurement using the Procurement Plan Execution System (SEPA). The Operating Manual will specify the procedures, terms, and persons responsible for procurement, especially any procurement to be carried out with community participation.

#### **IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE CONTRACTS**

- a. The exchange rate to be used will be the official purchase rate published by the Central Bank of Honduras on the date of payment.
- b. An annual financial audit and preliminary reports to 30 June of every year will be required.

#### **Conditions precedent to the first disbursement:**

- a. Approval of the program's Operating Manual that includes an administrative fiduciary and internal control manual for SEDINAFROH.
- b. Update of the cash flow based on the program's final execution plan.
- c. Signature of execution and fund transfer agreements between the Ministry of Finance (SEFIN) and SEDINAFROH and between SDEFIN and the FHIS, respectively.
- d. Signature of an interagency execution agreement between SEDINAFROH and FHIS for Component 1 of the program.
- e. Implementation by SEDINAFROH of a UEPEX module.
- f. Establishment of the program executing unit (PCU) in SEDINAFROH, with the following key staff hired: general coordinator, procurement specialist, and financial administrative specialist. Establishment of the PCU in the FHIS, with the following key staff hired: general coordinator and financial administrative specialist.

#### **V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION**

- 5.1 The fiduciary agreements and requirements for procurement establish the provisions that apply for execution of all program procurement.

##### **1. Procurement execution**

- 5.2 SEDINAFROH, through its project coordinating unit (PCU), will be in charge of the selection, tendering, contracting, and supervision processes, and of receiving program procurement. For its part, the FHIS will execute the procurement for its component, in accordance with the Bank's procurement policies (documents GN-2349-9 and GN-2350-9) and the operation's procurement plan, which break down: (i) the contracts for works, goods, and consulting services required to

- implement the program; (ii) the proposed methods for contracting goods and selecting consultants; and (iii) the procedures the Bank will use to review each procurement process. In planning procurement, the executing agency is to update the procurement plan annually, or in accordance with the program's needs, using the SEPA both to plan and to report on progress. Any change in the procurement plan is to be submitted to the Bank for its approval. The PCU will agree with the Bank on a comprehensive procurement plan for the first 18 months of execution. Program procurement will be reviewed ex ante during the first year of the operation unless otherwise noted in the procurement plan. SEDINAFROH will consolidate the procurement plan for execution of the operation.
- 5.3 **Procurement of works, goods, and nonconsulting services:** Works, goods, and nonconsulting services<sup>3</sup> arising under the program and subject to international competitive bidding (ICB) will be procured using the Bank's standard bidding documents (SBDs). Bidding processes subject to national competitive bidding (NCB) will be executed using national bidding documents acceptable to the Bank, published on the web site of the Government Procurement Regulation Office (ONCAE) [www.honducompras.hn](http://www.honducompras.hn). The program's sector specialist is responsible for reviewing the technical specifications for procurement when selection processes are being prepared. Pursuant to paragraph 3.10 (d) of policy GN-2350-9, SEDINAFROH may use single-source selection to contract the services of Asociación de Desarrollo Socioeconómico Indígena Bayán, for up to a maximum of US\$610,000. This is justified by the fact that the association holds the rights to implement the alternative education model—the tutorial learning system (SAT)—transferred by FUNDAEC, the institution that originally designed and developed it in Colombia.
- 5.4 The FHIS may procure the works and goods required for execution of Component 1, Climate change adaptation and mitigation solutions, using the **community participation contracting method** described in paragraph 3.17 of the Policies for the procurement of works and goods financed by the IDB, (document GN-2349-9), in accordance with the manual for Projects Executed by the Communities of the Program for the Integrated Development of Indigenous Peoples (PEC-DIPA Manual) and the program's Operating Manual.
- 5.5 **Selection and contracting of consultants:** Consulting service contracts arising under the program will be executed using the standard request for proposals (SRFP) issued by or agreed upon with the Bank. The program's sector specialist is responsible for reviewing the terms of reference for consulting service contracts.
- a. Selection of individual consultants: As determined by the executing agency, individual consultants may be contracted through local or international notices in order to establish a short list of qualified individuals.

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<sup>3</sup> Policy for the procurement of goods and works financed by the Inter-American Development Bank (document [GN-2349-9](http://www.idb.org/Document/2349)), paragraph 1.1: Nonconsulting services are treated as goods.

- b. **Training:** The identified training will be performed by individual consultants or consulting firms contracted for that purpose, following the policy for contracting consultants.
- 5.6 **Recurring costs:** These costs are operating and maintenance expenses required for implementing the program during its useful life, which will be financed by the program as indicated in the procurement plan and modifications thereto, and executed in accordance with the procedures agreed upon with the Bank. Recurring costs also include the fees of the consultants for the CPUs, who are required for administering and implementing the operation, office materials, transportation and travel expenses, and are estimated at US\$621,000. Operating costs do not include the salaries of civil service employees, or other regular operating expenses that SEDINAFROH and the FHIS should prioritize for program development in their institutional budgets.
- 5.7 **Advance procurement/retroactive financing:** Retroactive recognition of expenditures or retroactive financing are not envisaged for this operation.
- 5.8 **National preference:** In this operation, national preference will not be considered for the procurement processes of the required goods.
- 5.9 **Other:** The Operating Manual will contain details on the program's execution arrangements and instruments, as well as its fiduciary procedures.

## 2. Table of threshold amounts (US\$ 000)

Works			Goods <sup>4</sup>			Consulting services	
International competitive bidding	National competitive bidding	Shopping	International competitive bidding	National competitive bidding	Shopping	International advertising	Short list 100% national
≥ US\$1,500	Between US\$1,500 and US\$150	≤ US\$150	≥ US\$150	Between US\$150 and US\$25	≤ US\$25	≥ \$200	≤ US\$200

## 3. Main procurement processes

- 5.10 SEDINAFROH and the FHIS will be responsible for preparing their respective procurement plans.<sup>5,6</sup> The main procurement processes envisaged for this operation are set out below.

<sup>4</sup> Includes nonconsulting services.

<sup>5</sup> Policies ([GN-2349-9](#)) paragraph 1.16. and ([GN-2350-9](#)) paragraph 1.23.: The borrower will prepare and, before loan negotiations, furnish to the Bank for its approval, a Procurement Plan acceptable to the Bank for the initial period of at least 18 months.

<sup>6</sup> See [Guidelines for the preparation and use of the procurement plan \(PA<sub>18</sub>\)](#)

### MAIN PROCUREMENT PROCESSES

Activity	Type of process	Estimated date	Estimated amount US\$	
<b>Works</b>				
Contracting of implementers of climate change adaptation projects in the agriculture and food security sector (several processes)	Community participation **	Q II 2013	525,000	
Contracting of implementers of climate change adaptation and mitigation projects in other sectors (several processes) <sup>7</sup>	Community participation **	Q III 2013	1,155,000	
<b>Services</b>				
Contracting of a service provider company to facilitate 6 workshops on climate change topics for indigenous and Afro-Honduran leaders	ICB	Q II 2013	405,520	
Contracting of a company to design, prepare, and produce 12 video-documentaries on climate change	NCB	Q II 2013	60,000	
<b>Firms<sup>8</sup></b>				
Contracting of a firm to perform the program's final evaluation	QCBS	Q II 2015	90,000	
Contracting of an external audit firm	QCBS	Q II 2013	67,500	
Contracting of a service provider to develop a program for lower secondary education	SSS	Q III 2012	610,000	

\* To access the 18-month procurement plan PP<sub>18</sub>, click [here](#).<sup>9</sup>

\*\* Paragraph 3.17 of document GN-2349-9.

## 4. Procurement supervision

- 5.11 In accordance with the analysis of fiduciary risk for procurement, the ex ante review method will be used during the first year of execution. Subsequently the Bank may decide whether ex post review is appropriate, in which case it would be performed every 12 months in accordance with the program's supervision plan. Ex post review reports will include at least one physical inspection visit,<sup>10</sup> to be selected from among the procurement processes subject to ex post review.

<sup>7</sup> Includes the following sectors: forests and biodiversity, renewable energy, risk management, water resources, human health, risk management systems, and coastal marine zone.

<sup>8</sup> In consulting services, this means establishing the short list with firms of different nationalities. See Policy [GN-2350-9](#), paragraph 2.6.

<sup>9</sup> To create the link, press right button, edit Hyperlink, and insert the IDBDocs number at the end of the link.

<sup>10</sup> Inspections verify that procurements have actually been made, while verification of their quality and compliance with specifications is the responsibility of the sector specialist.

Threshold amounts for ex post review		
Works	Goods	Consulting services
As of year 2, all contracts for less than US\$600,000 will be reviewed ex post.	As of year 2, all contracts for less than US\$60,000 will be reviewed ex post.	As of year 2, all contracts for less than US\$80,000 will be reviewed ex post. Contracts for individual consultants for less than US\$30,000 will be reviewed ex post.
Any single-source selection of consulting services to be performed by firms or individuals, and the procurement of nonconsulting services, goods, or works, will be reviewed ex ante by the Bank, regardless of the amount of the contract.		

## 5. Special provisions

- a. **Measures to reduce the likelihood of corruption:** The provisions of documents GN-2349-9 and GN-2350-9 relating to prohibited practices (lists of ineligible companies and individuals maintained by multilateral agencies) will be applied.
- b. **Other special procedures:** At its discretion, the Bank may change the procurement supervision method, based on experience in execution and updated to the institutional capacity, or the fiduciary visits conducted.

## 6. Records and files

- 5.12 The CPU at each institution will be responsible for maintaining the files and original supporting documentation of procurement processes, as well as all vouchers for payments made, keeping records in accordance with established procedures. The Operating Manual will document the internal work flows and the separation of functions.

## VI. AGREEMENTS AND REQUIREMENTS FOR FINANCIAL MANAGEMENT.

### 1. Programming and budget

- 6.1 The current version of SIAFI operates in real time, at the different stages of the budget process, in government institutions that implement Bank projects. Budget execution occurs where the expenditure originates, in a deconcentrated manner, through their administrative offices, and includes projects for which they have been assigned the status of administrative manager. Budget reprogramming and increases do not require legislative approval although they must be approved by the Ministry of Finance. The Bank's financial parameters for the country make it possible to finance the entire program.

### 2. Accounting and information systems

- 6.2 The accounting subsystem is used by the institutions of the central government; the accounting registry method is cash-based and in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). The UEPEX module is used for the financial reporting and accountability



of projects, and is fed information entirely from the SIAFI's budget, treasury, and accounting subsystems.

### **3. Disbursements and cash flow**

- 6.3 The treasury subsystem meets the Bank's standards, which makes it an appropriate means for managing income and disbursements, and is also sufficient and reliable for administering project funds.<sup>11</sup> Both executing agencies will open special accounts with the Central Bank of Honduras, in the program's name, the funds will be managed through the Unified Treasury Account (CUT), and payments will be made from the operating accounts, in dollars or in local currency. Disbursements will be made in the form of advances, in accordance with the cash flow of firm commitments for four-month periods.

### **4. Internal audit and internal control**

- 6.4 As this function is still being developed, responsibility for evaluating the project's internal control system will fall to the external audit firm hired to perform the program's financial audit.

### **5. External control and reporting**

- 6.5 The evaluation of external control and the audit function of the operation will be performed by a firm of external auditors acceptable to the Bank. The estimated cost of the audit for the entire period is US\$67,500. In accordance with the Access to Information in force since January 2011, the Bank disseminates to the public the annual audited financial statements, which are to include the cash-flow statements, statement of cumulative investments, explanatory notes, and audit opinions.

### **6. Financial supervision plan**

- 6.6 The Bank will supervise implementation of the country system SIAFI, the UEPEX module, and the national goods module, and will review the auditors' reports and the implementation of action plans to address any findings. It will also supervise implementation and monitoring of the actions to mitigate identified risks through on-site reviews at the offices of the executing and co-executing agencies. It will also perform desk reviews. The supervision will be performed by the fiduciary specialist in financial management with support from the audit firm.

### **7. Execution arrangements**

- 6.7 Program execution will be the responsibility of SEDINAFROH and the FHIS, through their respective executing units, and the "Program Executive Committee" created for this operation. The Program Executive Committee will be in charge of leading and maintaining the program's strategic and programmatic orientation, ensuring internal and interagency coordination, and maintaining the conceptual connection between the autochthonous peoples policy and program execution.

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<sup>11</sup> Informe de Aplicación de la GUS, Calderón, Elizabeth, December 2011.

## **8. Other financial management requirements and agreements**

- 6.8 The actions to mitigate the fiduciary risks identified in the GRP will be monitored periodically, and strengthening actions will be proposed as necessary to provide reasonable assurances that resources are being used appropriately and efficiently; changes will be made to fiduciary arrangements as necessary. Since there are two executing agencies, management in the web-enabled loan management system (WLMS) will have to be performed separately, as is the case for the DIPA Program.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/12

Honduras. Nonreimbursable Financing GRT/\_\_\_-\_\_\_\_-HO to the Republic of Honduras  
Indigenous and Afro-Honduran Peoples and Climate Change

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 Beneficiary, for the purpose of granting it a nonreimbursable financing to support the execution of a program for indigenous and afro-honduran peoples and climate change. Such nonreimbursable financing will be for an amount of up to €3,500,000 (in its equivalent in dollars of United States of America) from the resources of a special contribution of the Nordic Development Fund, and will be subject to the Terms and Financial Conditions and the Special Contractual Conditions in the Project Summary of the Nonreimbursable Financing Proposal.

(Adopted on \_\_\_\_\_ 2012)

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