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MULTILATERAL INVESTMENT FUND

**DIGITALIZATION OF THE MICROENTERPRISE AND SMALL BUSINESS SECTOR
– DIGITAL HUB 504**

**HO-T1375
AND
HO-G1256**

DONORS MEMORANDUM

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PROJECT SUMMARY

In Honduras, there are around 250,000 micro, small, and medium-sized enterprises (MSMEs) in the formal sector of the economy (according to the Revenue Administration Service's business registry), which provide nearly 900,000 jobs (approximately 60% of the country's total).¹ The number of MSMEs operating in the informal sector is believed to be much higher.² Their contribution to GDP is estimated at 30% to 50%.³ Close to 99% of these MSMEs are microenterprises (1-10 employees) or small businesses (11-50 employees).⁴ Despite their enormous contribution to the economy, microenterprises and small businesses face significant challenges with competitiveness, including inefficiency, human capital with limited skills, low innovation capability, and problems with access to financing.⁵ What is more, the COVID-19 crisis is having a devastating impact on this sector, as lockdown measures have a disproportionate effect on the smallest businesses. This eliminates many families' sole source of income.⁶ For example, a recent study revealed that 68% of microenterprises and 69% of small businesses did not report any income in April/May 2020 due to the quarantine, compared to 47% for medium-sized and large enterprises.⁷

Given the health crisis, businesses must resort to the intensive use of digital tools to telework, make online purchases and sales, and manage production processes remotely. This can pose a big challenge for small businesses across all areas of the economy, including those with the least formality, as they must obtain access to technology tools and acquire digital skills to maximize their productivity and operations. While digitalization used to seem like an added bonus to boost productivity and earnings, today it has become a requirement for businesses to survive.

The purpose of this project is to drive digitalization in Honduras' microenterprise and small business sector as a strategy to ensure the continuity of business operations under the particular conditions of the COVID-19 health crisis and the "new normal." The project will target the country's 15 main municipios,⁸ prioritizing formal businesses in the hotel, restaurant, and services sector in tourist areas, as well as small-scale merchants, market vendors or those selling through traditional channels, and cultural/creative enterprises. There will also be some specific activities to support informal businesses. The project will promote innovative solutions for microenterprises and small businesses, support them in their digital transition, and facilitate their access to financial resources to invest in

¹ Carranza, S., [Las MIPYMES generan el 60% de los empleos en Honduras](#), Diario El Heraldo, Tegucigalpa, 26 June 2018.

² VV.AA., [Más de un millón de MiPymes trabajan en el sector informal](#), Hondudiario.com, Tegucigalpa, 12 July 2018.

³ Carranza, S., [Aprueban 2,500 millones de lempiras para respaldar créditos de MIPYMES](#), Diario El Heraldo, Tegucigalpa, 25/04/20; VV.AA., [La Mipyme, columna vertebral que sostiene a la economía](#), El País.HN, Tegucigalpa, 27 June 2019.

⁴ Dini, M., Stumpo, G., eds., [MIPYMES en América Latina: un frágil desempeño y nuevos desafíos para las políticas de fomento](#), ECLAC, 2018, p. 444.

⁵ Almeida, E., Prat, J., Vargas-Moreno, J., Acevedo, M., eds., [Honduras: A Territorial Approach to Development](#), 2019, pp. 10, 23, 25.

⁶ Ham, A., [Social and Economic Impact of the COVID-19 and Policy Options in Honduras](#), UNDP, LAC C19 PDS no. 4, 2020, p. 14.

⁷ UNAH-IIES, [Análisis de Resiliencia Empresarial COVID-19: Informe de Investigación](#), 2020, p. 14-15.

⁸ Tegucigalpa, San Pedro Sula, El Progreso, La Ceiba, Comayagua, Danlí, Choluteca, Juticalpa, San Lorenzo, Gracias, Catacamas, La Esperanza, Choloma, Santa Rosa de Copán, and Roatán.

digitalization. An Open Innovation Hub (Digital Hub 504) will be created to serve as a focal point for coordination among stakeholders, leader training, mentoring programs, resource channeling, and business acceleration. The project's main expected outcomes include: (a) 3,000 microenterprises and small businesses receive technical assistance to digitize their processes; (b) 1,500 enterprises adopt e-commerce solutions; (c) 1,000 enterprises access financial resources to digitize their processes; (d) 15 businesses receive support to implement their solutions for microenterprise and small business digitalization; (e) 3,000 enterprises benefit from Open Innovation Hub activities; (f) 30 leaders in the ecosystem receive training in creativity and innovation; (g) 100 digital enterprises are accelerated; (h) 400 enterprises are formalized, and (i) 11,000 new jobs are created.

The project executing agency will be the Honduran Federation of Chambers of Commerce and Industry (FEDECAMARA), which can lead sector coordination. The project is consistent with the guidelines of Honduras' National Employment Policy, in particular its fourth strategic pillar on promoting an environment conducive to business creation and development, and with European Union's Euroempleo program, which is contributing €4.6 million in cofinancing.

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Proposed resolution

INFORMATION AVAILABLE IN THE TECHNICAL DOCUMENTS SECTION OF THE IDB LAB PROJECT INFORMATION SYSTEM

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ABBREVIATIONS

| | |
|------------|--|
| ASEAN | Association of Southeast Asian Nations |
| BANHPROVI | Banco Hondureño para la Producción y la Vivienda [Honduran Bank for Production and Housing] |
| COHEP | Consejo Hondureño de la Empresa Privada [Honduras Council of Private Enterprise] |
| € | Euro |
| ECLAC | Economic Commission for Latin America and the Caribbean |
| FEDECAMARA | Federación de Cámaras de Comercio e Industria de Honduras [Honduran Federation of Chambers of Commerce and Industry] |
| ICT | Information and communication technology |
| IDB | Inter-American Development Bank |
| IDB Lab | Multilateral Investment Fund |
| MSMEs | Micro, small and medium-sized enterprises |
| OECD | Organisation for Economic Cooperation and Development |
| USAID | United States Agency for International Development |
| We-Fi | Women Entrepreneurs Finance Initiative |

EXECUTIVE SUMMARY

**Digitalization of the Microenterprise and Small Business Sector –
Digital Hub 504
HO-T1375 and HO-G1256**

| | | | | |
|--|---|---------------------|-------------------|-------------|
| Country and geographic location: | Tegucigalpa, San Pedro Sula, El Progreso, La Ceiba, Comayagua, Danlí, Choluteca, Juticalpa, San Lorenzo, Gracias, Catacamas, La Esperanza, Choloma, Santa Rosa de Copán, and Roatán. | | | |
| Executing agency: | Honduran Federation of Chambers of Commerce and Industry (FEDECAMARA) | | | |
| Focus area: | Knowledge economy | | | |
| Coordination with other donors/Bank operations: | Coordination with operations HO-L1216, HO-L1202, HO-T1352, HO-T1322, HO-T1353, CH-T1232, and BR-T1403 and a contribution of €4.6 million (US\$5,474,000) from the European Union's (EU) Euroempleo program. ⁹ | | | |
| Project beneficiaries: | <p>The project will benefit 3,000 microenterprises and small businesses through direct technical assistance for digitalization, 1,500 through support for the adoption of e-commerce, 1,000 through support to access financial resources for investment in digitalization, and 3,000 through training programs and resources offered via the Open Innovation Hub. It will also benefit 15 digital solutions providers through direct support and 100 through acceleration, as well as 400 formalized enterprises, and 11,000 employees with new jobs.</p> <p>The beneficiary microenterprises and small businesses will primarily, but not exclusively, be hotels, restaurants, and services in tourist areas, retail distributors or small-scale merchants, market vendors, and cultural/creative businesses.</p> | | | |
| Budget: ¹⁰ | | U.S. dollars (US\$) | Euros (€) | |
| | IDB Lab | 500,000 | 420,000 | 4% |
| | European Union cofinancing ¹¹ | 5,474,000 | 4,600,000 | 42% |
| | Counterpart | 7,056,000 | 5,927,040 | 54% |
| | Total Budget | 13,030,000 | 10,947,040 | 100% |
| Execution and disbursement period: | 36 months for execution ¹² and 42 months for disbursements | | | |
| Special contractual conditions: | Establishment of the executing unit to the Bank's satisfaction, as a requirement for the first disbursement. | | | |
| Social and environmental impact review: | Category "C". | | | |
| Unit responsible for disbursements: | IDB Country Office in Nicaragua (CID/CHO). | | | |

⁹ The EU resources are directly from the EU delegation in Honduras and are channeled to the Bank through the Framework Agreement between the EU and the Bank, which stipulates a series of pre-negotiated conditions.

¹⁰ The exchange rate used was €0.89/US\$.

¹¹ The cofinancing resources include an administration fee of 5.8% of the total EU contribution that will be administered by the Bank. This fee will be paid to the Bank in the first year of project execution and will be distributed among the relevant units of the Bank as approved in Resolution DE-8/20.

¹² The execution period is the same as the EU implementation period. All project activities will be carried out during this period (except the final audit). The start date for the implementation period is established in the delegation agreement and coincides with the date on which the technical cooperation agreement between the Bank and the executing agency is signed.

I. THE PROBLEM

- 1.1 In Honduras, there are around 250,000 micro, small, and medium-sized enterprises (MSMEs) in the formal sector of the economy (according to the Revenue Administration Service's business registry), which provide nearly 900,000 jobs (approximately 60% of the country's total).¹³ The number of MSMEs operating in the informal sector is believed to be much higher.¹⁴ Their contribution to GDP is estimated at 30% to 50%.¹⁵ Close to 99% of these MSMEs are microenterprises (1-10 employees) or small businesses (11-50 employees).^{16,17} Despite their enormous contribution to the economy, microenterprises and small businesses face significant challenges with competitiveness, including inefficiency, human capital with limited skills, low innovation capability, and problems with access to financing.¹⁸
- 1.2 Microenterprises and small businesses are being impacted significantly by COVID-19. Due to the quarantine, Honduras' GDP is projected to fall by 2.9% to 3.9% in 2020,¹⁹ dramatically increasing inequality. Nearly 1.6 million Hondurans suffer from food insecurity caused by the quarantine,²⁰ and the Colegio de Economistas de Honduras [Honduran Economists Association] predicts that poverty could grow by as much as 10%.²¹ In terms of the impact of COVID-19 on microenterprises and small businesses in particular, a recent study revealed that 68% of microenterprises and 69% of small businesses did not report any income in April/May 2020 due to the quarantine, and that microenterprises have furloughed 8% of their permanent staff, 19% of their temporary staff, and 25% of their hourly employees.²²
- 1.3 Given the health crisis, businesses must resort to the intensive use of digital tools to telework, make online purchases and sales, and manage production processes remotely. Telework, however, is mostly accessible to middle- and high-income

¹³ Carranza, S., [Las MIPYMES generan el 60% de los empleos en Honduras](#), Diario El Heraldo, Tegucigalpa, 26 June 2018.

¹⁴ VV.AA., [Más de un millón de MiPymes trabajan en el sector informal](#), Hondudiaro.com, Tegucigalpa, 12 July 2018.

¹⁵ Carranza, S., [Aprueban 2,500 millones de lempiras para respaldar créditos de MIPYMES](#), Diario El Heraldo, Tegucigalpa, 25 April 2020; VV.AA., [La Mipyme, columna vertebral que sostiene a la economía](#), El País.HN, Tegucigalpa, 27 June 2019.

¹⁶ Dini, M., Stumpo, G., eds., [MIPYMES en América Latina: un frágil desempeño y nuevos desafíos para las políticas de fomento](#), ECLAC, 2018, p. 444. A microenterprise is any economic unit with a minimum of one remunerated person working in it, which may be the proprietor, and a maximum of 10 remunerated employees. Small businesses are usually defined as economic units with a minimum of 11 and a maximum of 50 employees (see: <http://fundacioncovelohn/conceptos-generales/>).

¹⁷ A microenterprise is any economic unit with a minimum of one remunerated person working in it, which may be the proprietor, and a maximum of 10 remunerated employees. Small businesses are usually defined as economic units with a minimum of 11 and a maximum of 50 employees (see: <http://fundacioncovelohn/conceptos-generales/>).

¹⁸ Almeida, E., Prat, J., Vargas-Moreno, J., Acevedo, M., eds., [Honduras: A Territorial Approach to Development](#), 2019, pp. 10, 23, 25.

¹⁹ [El PIB hondureño caerá hasta 3.9% en 2020 y economía se recuperará en 2021](#), Proceso Digital, Tegucigalpa, 7 May 2020.

²⁰ According to World Food Programme experts.

²¹ [Crecerá 10% la pobreza](#), Diario La Tribuna, Tegucigalpa, 12 August 2020.

²² UNAH-IIES, Análisis de Resiliencia Empresarial COVID-19: Informe de Investigación, 2020, p. 14-15.

workers: only 17.9% of households in the lowest income quintile have Internet access, while in the highest quintile, this figure rises to 67.3%.²³ Only 11% of Honduran businesses have been able to continue selling online during the lockdown.²⁴ This can pose a big challenge for small businesses, who must obtain access to technology tools and acquire digital skills to maximize their productivity and operations. This is true across all sectors, including the informal sector (businesses that are not registered in the national tax system and, therefore, do not belong to trade associations and do not offer social security or job stability to their employees). While digitalization used to seem like an added bonus to boost productivity and earnings, today it has become a requirement for businesses to survive.

- 1.4 Digital transformation consists of businesses integrating digital technology into their processes, products, and/or services to increase efficiency, provide value to their customers, reduce risks, and discover new opportunities to generate revenue or access different markets. To do this, they have to change the way they operate, i.e., recreate their processes, products, and/or business strategies. Going digital is also an appropriate response to the COVID-19 crisis, since it enables off-site business and contactless transactions to take place even though establishments are closed to customers.
- 1.5 Digital transformation offers microenterprises multiple advantages: (i) it boosts their operational efficiency and responsiveness in a rapidly changing market like today's (responsiveness is vital to get and retain customers); (ii) it improves the customer experience and generates new sources of revenue; (iii) it lowers costs and improves quality; (iv) it provides a competitive advantage over nondigitalized enterprises; (v) it offers greater security for information registry and processing; (vi) it enables decision-making based on sound data and measurements, and (vii) it drives a culture of innovation. The COVID-19 crisis has created greater incentives and urgency for businesses to modernize and adopt new digital technology.
- 1.6 Studies show that microenterprises and small businesses (including sole proprietorships) that go digital can reach customers in new markets in a way and at a scale that would be virtually impossible through traditional processes.²⁵ In a study conducted by Deloitte in the United States, 70% of small and medium-sized enterprises interviewed reported an increase in revenue after going digital. Additionally, 42% said they experienced an increase in customers, 37% improved their products and services, and 22% reduced their operating costs.²⁶ A similar study by the Association of Southeast Asian Nations (ASEAN) found that MSMEs are interested in digitalization for different reasons, such as to reach more customers (72%), lower costs (44%), and improve their market intelligence (28%).²⁷ Another study that focused on Central America found that, as a result of adopting digital technology, more than 80% of microenterprises and small businesses reported an

²³ Ham, A., [Social and Economic Impact of the COVID-19 and Policy Options in Honduras](#), UNDP, LAC C19 PDS no. 4, 2020, p. 14.

²⁴ UNAH-IIES, *ibid.*, p. 17.

²⁵ OECD, [Entrepreneurship at a Glance 2017](#), p. 8.

²⁶ Deloitte, [The Performance of Small and Medium Sized Business in a Digital World: a Report for the Connected Commerce Council](#), 2019, p. 6, 20. In the United States, the Small Business Administration defines a small business as having up to 500 employees.

²⁷ ASEAN, [Study on MSMEs' Participation in the Digital Economy in ASEAN: Nurturing ASEAN MSMEs to Embrace Digital Adoption](#), 2012, p. 28.

increase in customers through e-commerce, between 40% and 50% increased their sales, close to 30% saw higher profit margins, and between 20% and 30% hired new staff.²⁸ Moreover, according to the Chilean Ministry of Economy, Development and Tourism, which coordinates the “Digitaliza tu Pyme” [Digitalize Your SME] program, microenterprises and small businesses can increase revenue by around 20% by digitizing their sales channels.²⁹ The Colombian National MSME Digitalization Program also has managed to increase revenue in numerous sectors by amounts ranging from 20% in construction services to 70% in taxi services.³⁰

- 1.7 It should also be noted that women entrepreneurs have tremendous potential to contribute to job creation, growth, and competitiveness. According to FEDECAMARA membership data, around 40% of businesses are women-run. Nonetheless, women-led microenterprises face additional challenges accessing financial products and services, markets and value chains, and the skills required to improve business performance. For example, while 85% of businesses headed by men have access to a bank account, only 71% of women-led businesses do. And although 17% of men report that they save for business purposes, only 10% of women report the same.³¹ A prosperous sector of women entrepreneurs contributes to a country’s overall growth, thus, it is important to place a particular focus on ensuring equity in this operation in order to assist women-led microenterprises and small businesses. This segment could also be strengthened through digitalization.

II. THE INNOVATION PROPOSAL

A. Project objective and strategy

- 2.1 The objective of this project is to accelerate the digital transformation process in Honduran microenterprises and small businesses through an operation with the private sector, under the fourth strategic pillar of the National Employment Policy. This would improve their capabilities to increase resilience and ensure the continuity of business activity by adjusting their business models to the context of the health crisis and the “new normal.”³² The project will support microenterprises and small businesses by providing direct assistance for them to go digital (Component 2), improving the offering of digital solutions (Component 1), facilitating financial resources for digitalization (Component 3), and building innovation capacity in the ecosystem and trade union structure (Component 4).
- 2.2 The project will also promote microenterprise and small business digitalization in areas such as: (a) sales management, (b) internal processes and logistics, and (c) marketing and customer management, based on their particular needs. A call for proposals will be launched using demand-based criteria to strengthen the offering of digital solutions for microenterprises and small businesses. The initiative will target

²⁸ Suominem, K., *Acelerar el Comercio Electrónico de las MIPYME en América Central*, Nextrade Group/Cenpromype, April 2020.

²⁹ Red de Transformación Digital, [*El Lento Avance de las Pymes hacia la Transformación Digital*](#), Diario Financiero, Santiago, 18 April 2019, p. 28.

³⁰ OECD, IDB, [*Broadband Policies for Latin America and the Caribbean: A Digital Economy Toolkit*](#), 2016, p. 338.

³¹ Almeida, E., Prat, J., Vargas-Moreno, J., Acevedo, M., eds., [*Honduras: A Territorial Approach to Development*](#), 2019, p. 23.

³² Suominem, K., *Acelerar el Comercio Electrónico de las MIPYME en América Central*, Nextrade Group/Cenpromype, April 2020.

organizations and businesses in the information and communication technology (ICT) space that seek financing for digital innovation and solutions to facilitate the transition to digitalization.³³ The project will also aim to identify microenterprises and small businesses with the greatest digitalization potential in order to provide them with direct support for their digital transformation.

- 2.3 In the first stage, as many viable solutions as possible will be identified from local or international stakeholders (tech startups, universities, etc.) that may be tailored to the Honduran context to offer digitalization services. In the second stage, the project will offer financial support for these digital solutions, and a digital platform will be created to: (i) strengthen knowledge sharing on available business innovation solutions and products/services; (ii) enhance business and product development skills by offering solutions; (iii) facilitate access to financing for microenterprises and small businesses;³⁴ (iv) facilitate access to supply chains and numerous formal networks; (v) foster gender equity in value chains by connecting women entrepreneurs to specific solutions for them; (vi) support family businesses through tailored products or services; (vii) promote leadership in communities drawing on the skills of local entrepreneurs, and (viii) facilitate businesses moving into the formal sector.
- 2.4 In terms of formalization, training workshops and digital resources will be offered under the project to help enterprises with varying degrees of informality become familiar with procedures for legal registration and the relevant benefits and obligations this entails. Furthermore, through digitalization and the automation of processes (invoicing, inventory management, accounting, paying taxes, etc.) the project will aim to move them closer to meeting those conditions more easily and at a lower cost.
- 2.5 As for business resilience, the project will focus training sessions and technical assistance on digital technology adoption and digital skills education. This will help beneficiaries gain the ability to adapt and repurpose their digital tools (along with their business models) in response to adverse or unforeseeable conditions, and identify new opportunities for digital expansion in contexts of profound changes in the market.

B. Beneficiaries

- 2.6 The project will target the country's 15 most populated urban municipios (Tegucigalpa, San Pedro Sula, El Progreso, La Ceiba, Comayagua, Danlí, Choluteca, Juticalpa, San Lorenzo, Gracias, Catacamas, La Esperanza, Choloma, Santa Rosa de Copán, and Roatán) and will include traditional businesses (the users), as well as dynamic ones (solutions providers) with investment capabilities. It will also offer a specific plan to help informal enterprises integrate into the formal sector and access financing and nonfinancial services, working side by side with the

³³ The applicants will be: (i) individual small and innovative organizations; (ii) organizations that support microenterprise and small business development, and (iii) other organizations that drive digital innovation in the delivery of goods and services (characteristics and criteria will be determined jointly among IDB Lab, the EU, and the executing agency).

³⁴ The possibility of coordinating with organizations such as BANHPROVI, Fundación Covelo, or any other organizations that may provide financing solutions will be explored.

Euroempleo program.³⁵ The project may include other municipios where synergy with Inter-American Development Bank (IDB) loans and/or technical cooperation operations could be ensured. It will benefit microenterprises (defined as units with 1-10 employees) with a minimum of US\$4,000 in annual sales and small businesses (defined as units with 11-50 employees) with at least US\$25,000 in annual sales,³⁶ which will be hotels, restaurants, and services in tourist areas, retail distributors or small-scale merchants, and cultural/creative enterprises. These sectors were selected as they represent the largest percentage of Honduran microenterprises and small businesses (merchants make up 54% of microenterprises, followed by hotels, restaurants, and bars, which account for 15%).³⁷ They have also been hit hard by quarantines ordered as a result of COVID-19 (this being especially true for cultural enterprises). These sectors will be given priority under the project, but will not be the only ones included.

C. Components, activities, and outcomes

- 2.7 **Component 1: Call for proposals to identify, test, and disseminate innovative solutions (IDB Lab: US\$52,000; European Union: US\$1,709,425 (€1,436,491); Counterpart: US\$13,000).** The objective of this component is to identify the best technology solutions and tools. The digital solutions selected will include tools related to the e-commerce value chain to digitalize sales, internal processes, and customer management, as well as fintech and cybersecurity solutions.
- 2.8 The activities to be carried out under this component are as follows: (a) identifying technical and strategic criteria to select the technology solutions to offer to microenterprises and small businesses benefiting from the project; (b) designing the conditions for the call for proposals; (c) creating the submission and selection platform; (d) promoting the call for proposals, including a special effort to encourage women to apply; (e) technology solution selection process with gender parity criteria; and (f) awarding funds to tailor and implement solutions.
- 2.9 Nine innovative technology solutions will be selected that can be introduced in the Honduran context. These will be accelerated and financed with nonreimbursable funds up to US\$150,000. Other solutions that are not selected may also be included on the digital platform so that those products and services can be disseminated as well. Beneficiary organizations or businesses will sign an agreement with the Honduran Federation of Chambers of Commerce and Industry (FEDECAMARA) that sets out the main terms and conditions, including the cofinancing to be contributed by awardees, a procurement plan, procedures to ensure fulfillment of EU and IDB requirements (such as the restrictive measures³⁸ and the expanded

³⁵ The EU's Euroempleo program supports and furthers efforts for the promotion and sustainability of decent jobs and a life with dignity for the entire population, by enhancing job skills and labor market efficiency and strengthening access to markets and competitiveness for microenterprises and small businesses in Honduras.

³⁶ As classified by CONAMIPYME [National Council for Micro, Small, and Medium-sized Enterprises].

³⁷ Dini, M., Stumpo, G., eds., *MIPYMES en América Latina: un frágil desempeño y nuevos desafíos para las políticas de fomento*, ECLAC, 2018, p. 445.

³⁸ The restrictive measures involve ensuring that no EU funds are awarded to goods and services providers or to winners of innovation competitions who are on the EU's sanctions map, which can be viewed at www.sanctionsmap.eu. The sanctions map is an IT instrument that can be used to look up sanctions regimes. Sanctions originate from legal acts published in the Official Journal of the European Union. Providers sanctioned by the IDB are also ineligible. A list of such providers may be found at the following link: <https://www.iadb.org/en/transparency/sanctioned-firms-and-individuals>

eligibility established in the European Union Procedures and Practical Guide (PRAG),^{39,40} and a work plan consistent with the project's strategic objectives. The activities of these enterprises will be monitored to ensure that the awarded resources are utilized for business digitalization in the beneficiary segments. To be selected, applicants will submit sound market studies to support the expectation that their products/services will be adopted and will explain how these products/services are suitable to the Honduran context. Other tech solutions submitted by ICT firms and startups that fulfill the technical criteria to support business digital transformation processes may be incorporated into the virtual platform to be developed under Component 4 (see paragraph 2.17), so that those products and services will also be available to businesses.

- 2.10 The call for proposals for innovative technological solutions and tools will follow clearly defined criteria, taking into account regional and local experiences and lessons learned from other similar processes tailored to country conditions. Concerns regarding gender and geographic distribution (coverage of the provider's main services in priority municipios, including technical support and/or training sessions), as well as other relevant issues, will be addressed in all promotional and outreach activities.
- 2.11 The outcomes of this component are: (a) a model to identify and finance innovative technology solutions is implemented (call for proposals mechanism); (b) 15 technology solutions are supported and implemented at the participating enterprises; and (c) nine enterprises that have traction are promoted and accelerated for the strategic development of new technology to further the digitalization of microenterprises and small businesses, including five women-led enterprises.⁴¹
- 2.12 **Component 2: Support to businesses for the digital transition (IDB Lab: US\$75,000; European Union: US\$749,074 (€629,474); Counterpart: US\$175,000).** The objective of this component is to develop tools and implement them in businesses to strengthen their digital and business capabilities and guide their efforts, while providing them with access to financing to drive and facilitate their digital transformation. This digital transformation will focus on the eight dimensions identified by the Chequeo Digital platform:⁴² data and analytics, communication, culture and leadership, digital strategy and transformation, people and organization, products and innovation, processes, and digital technology and skills. All assistance will be tailored to the digital maturity of the beneficiary enterprises. The activities to be carried out under this component are as follows: (a) promoting and raising awareness about the need for and advantages of using new technology and innovation; (b) launching the call for proposals from microenterprises and small businesses to support them in their digitalization process; (c) carrying out the

³⁹ https://ec.europa.eu/europeaid/funding/about-funding-and-procedures/procedures-and-practical-guide-prag_en

⁴⁰ In the event of potential noncompliance, FEDECAMARA must return to the Bank the resources considered ineligible by the EU.

⁴¹ A target of 33% has been set considering that participation by women is currently low.

⁴² Chequeo Digital is a tool developed under the "Digitaliza tu Pyme" [Digitalize Your SME] program coordinated by the Chilean Ministry of Economy, Development, and Tourism with IDB support. It allows users to measure business maturity levels, generate reports with suggestions on digital transformation, and monitor progress in the digitalization process. The Honduran Department of Economic Development is in the process of adopting this system.

selection process for microenterprises and small businesses with gender parity; (d) implementing the self-diagnostic and monitoring tool (Chequeo Digital) to determine businesses' specific needs and levels of digital maturity, in order to match them with specific solutions supported under Component 1; (e) promoting the digital platform to be developed under Component 4 to facilitate access to knowledge resources and technology solutions; (f) developing booster and technical assistance programs (with personalized mentoring) to enable segmented and customized digitalization based on digital maturity; (g) developing supplementary training programs on innovation culture and business resilience, including specific programs for women entrepreneurs, and (h) developing a program to encourage enterprises that have yet to register with the Revenue Administration Service to formalize their operations through digital transformation.

- 2.13 The outputs/outcomes of this component are: (a) 3,000 enterprises receive technical assistance and virtual training tailored to their needs; (b) 1,500 enterprises adopt digital solutions and tools, with at least 750 being women-led, and (c) 1,000 entrepreneurs participate in the formalization program.⁴³
- 2.14 **Component 3: Access to financing for digitalization (IDB Lab: US\$20,000; European Union: US\$115,242 (€96,842); Counterpart: US\$4,840,000).** The objective of this component is to provide financial resources for the businesses participating in the project that meet specific credit and technical requirements to invest in the digitalization process.
- 2.15 The activities to be carried out under this component include: (a) offering virtual workshops on financial management and management using digital resource planning, sales, and payment (fintech) solutions, among others (supported under Component 1); (b) organizing events/creating arrangements to match providers of financial products with beneficiaries, using a gender parity approach;⁴⁴ (c) promoting solutions for digital transaction registry to help enterprises with limited access to financial products obtain a credit history; and (d) providing access to financing to adapt business models and respond to post-COVID-19 demand, using a gender parity approach.
- 2.16 The outputs/outcomes of this component include: (a) 1,000 enterprises, 500 of which will be women-led, access funds offered by the Honduran Bank for Production and Housing (BANHPROVI),⁴⁵ commercial banks, or chambers of commerce for their digital transformation; (b) US\$4.8 million⁴⁶ are placed in enterprises participating in the project; (c) 1,000 enterprises participate in activities to match them with providers of financial products so they can gain access to financing; and (d) 1,000 enterprises adopt a solution to digitalize transactions and generate records to help them obtain a credit history.
- 2.17 **Component 4: Creation of the “Digital Hub 504” Open Innovation Hub to strengthen the digital enterprise and innovation ecosystem (IDB Lab: US\$273,000; European Union: US\$1,932,714 (€1,623,480); Counterpart:**

⁴³ The beneficiaries of the different outputs may be the businesses themselves.

⁴⁴ Close coordination will take place with the Global Credit Program for Safeguarding the Productive Fabric and Employment (operation HO-L1216), which aims to provide emergency aid to preserve liquidity and normalize MSME operations during the COVID-19 pandemic. This operation will be executed by BANHPROVI.

⁴⁵ Honduran Bank for Production and Housing (BANHPROVI).

⁴⁶ Equivalent to €4,032,000 at an exchange rate of €0.89/1 US\$.

- US\$1,828,000).** The objective of this component is to create an ongoing mechanism for open collaboration under the supervision of an execution unit, which will coordinate the digital entrepreneurship and innovation ecosystem with a focus on microenterprises and small businesses and will ensure that the activities financed under Components 1, 2, and 3 are sustainable and scalable. The Hub will centralize and facilitate access to resources for training, mentoring, opportunities, connections, solutions, and digital tools through partnerships with established companies that support startups in the priority sectors, with a special focus on those led by women. At the same time, the Hub will seek to drive and accelerate the development of fintech and digital solutions that use fourth industrial revolution technologies (blockchain, the Internet of Things, artificial intelligence, big data, etc.) and can be integrated into the value chains of microenterprises and small businesses. After the project is concluded, the Hub should become a unit within FEDECAMARA to ensure the continuity of efforts spearheaded by the operation and coordinate different digitalization initiatives with various trade associations and representative organizations (such as the Honduran Council of Private Enterprise (COHEP), the National Association of Industrialists (ANDI), and the Honduran National Association of Small and Medium Industry (ANMPIH)).
- 2.18 The project will promote an exchange of experiences with the Chilean Entrepreneurs Association (ASECH) through the IDB Lab project “Connecting Opportunities in the Digital Era” (operation CH-T1232), which will experiment with different solutions to help accelerate the digitalization of MSMEs and the upskilling/reskilling of those collaborating with them. The project will also draw on lessons learned from the project “BID3: Internationalization and Integration of the Brazilian Innovation Ecosystem” (operation BR-T1403), since Cubo is a prominent stakeholder in the Brazilian innovation ecosystem. With a view to sharing and transferring knowledge on fourth industrial revolution innovation and technology, coordination will take place with the Israeli Trade and Cooperation Office in Tegucigalpa.
- 2.19 The activities to be carried out under this component include: (a) holding awareness-raising sessions for established businesses to foster collaboration and innovation, and communicate the benefits of gender lens investing, as part of the Hub; (b) identifying training needs on a per-sector basis, e.g. those of women entrepreneurs; (c) developing virtual training tools; (d) identifying innovative solutions and incentives; (e) disseminating digital solutions and tools through virtual events; (f) training innovation advisors with a gender approach; (g) training strategic ecosystem leaders in creativity and innovation skills, and (h) generating a data base with the beneficiaries’ information to record the impacts of digitalization on their business competitiveness.
- 2.20 The outputs/outcomes of this component include: (a) 10 partnerships with public and private sector stakeholders established to support the Hub, including stakeholders who specifically support the participation of women; (b) two new digital services tailored or improved in chambers of commerce; (c) 3,000 enterprises registered with the Hub (1,500 being women-led); (d) a virtual platform created with resources to advise enterprises, technology solutions and tools, virtual training, and access to resources made available to enterprises by the public and private sectors to promote their digitalization; (e) 20 business development organizations innovating in their internal processes to improve assistance for microenterprises and small businesses; (f) 40 innovation advisors for microenterprises and small businesses trained; (g) 30 strategic ecosystem leaders (microenterprise and small business owners with

the ability to influence and guide communication with other entrepreneurs and represent them in other organizations) certified in creativity and innovation skills; (h) 100 digital enterprises served by the project (50 being women-led), and (i) a database to track the impacts of digitalization on business competitiveness systematized.

D. Innovation

- 2.21 The project is innovative inasmuch as it aims to capitalize on the advantages of the most advanced digital tools to drive digitalization in a way that enhances enterprises' survival, resilience, and productive potential. It is also innovative to the extent that it promotes digitalization beyond the traditional areas of sales and payments and extends its efforts to internal processes like accounting and customer management. Priority should be given to digital solutions tailored to the unique characteristics of microenterprises and small businesses, which often cannot access digital resources due to their high costs or because they are designed for medium-sized or large enterprises. Lastly, the creation of a permanent Open Innovation Hub to promote digitalization in the ecosystem with an inclusive gender perspective is an innovative approach to increasing assistance for microenterprises and small businesses in Honduras.

E. Outcomes, measurements, and monitoring

- 2.22 The project's main expected outcomes include: (a) 3,000 microenterprises and small businesses receive technical assistance for their digitalization process; (b) 1,500 enterprises adopt digital solutions and tools; (c) 1,000 enterprises access financial resources to digitalize their processes; (d) 15 businesses receive support to implement their solutions for microenterprise and small business digitalization; (e) 3,000 enterprises register with the Open Innovation Hub; (f) 30 ecosystem leaders receive training in creativity and innovation; (g) 100 digital enterprises are assisted by the project; (h) 400 enterprises are formalized, and (i) 11,000 new jobs are created by businesses that implement digital transformation processes.
- 2.23 **Gender and diversity.** The Honduran microenterprise and small business sector is marked by significant participation by women.⁴⁷ However, this participation takes place under conditions of persistent gender-based discrimination, which makes it difficult for women to establish businesses or access financing. In light of this, the project will incorporate a comprehensive crosscutting gender dimension in its components. By doing so, it will aim to facilitate the integration of women-led or majority women-owned enterprises into the entrepreneur ecosystem and provide them with access to its main resources. It will also encourage and help women who have creative ideas to formalize their business proposals and participate in competitions, by offering training courses specifically geared towards them that highlight the opportunities for gender equity in technology industries (Component 2). The project will measure the number of indigenous and Afro-descendant women.
- 2.24 The project will also seek to support a large number of viable women-led enterprises (50% of the total enterprises supported by Component 2 and 3 activities). Lastly, women will be connected with relevant stakeholders and, in certain cases, their counterparts in the public and/or private sectors. To do this, stakeholders identified and incorporated into Digital Hub 504 will be trained in the benefits of gender lens

⁴⁷ CENPROMYPE, [*Mujeres y MiPymes: Diagnóstico de la Situación de la Mipyme en Centroamérica y República Dominicana*](#), 2013, p. 52.

investing. Activities aimed specifically at women entrepreneurs will be strengthened through partnerships with Voces Vitales, Women in Tech, Women Do Tech, and other mentor networks in Honduras and abroad, especially initiatives like WeXchange.⁴⁸

- 2.25 **Monitoring and evaluation.** The project's evaluation plan includes resources to develop a midterm monitoring and evaluation system. Project activities should also be systematized from the early stages of execution to assist with the subsequent scalability phase. The midterm evaluation will be contracted out by the Bank⁴⁹ and will be performed once 50% of IDB Lab and European Union funds have been disbursed, or when half of the execution period has elapsed. Any information required for the evaluation should be obtained through the monitoring activities.
- 2.26 The executing agency will have a technology platform to continuously monitor progress and the achievement of outcomes. For training components, a monitoring system will be set up to track capacity-building for human capital. For social media campaigns, social media metrics will be monitored exhaustively and regularly using tools like Google Analytics to ensure that messages are reaching the target population. An enterprise monitoring tool will also be developed to track the evolution of businesses' revenue, employability, and other relevant indicators.

III. ALIGNMENT WITH THE IDB GROUP, SCALABILITY, AND PROJECT RISKS

A. Alignment with the IDB Group

- 3.1 This project is consistent with the second Update to the Institutional Strategy of the IDB Group (document AB-3190-2), as it helps overcome the key development challenges of (a) social exclusion and inequality, and (b) productivity and innovation (through the areas of emphasis "technology and innovation" and "resource mobilization") and addresses the crosscutting issue "gender equality and diversity." Moreover, the project is aligned with the third pillar of the IDB Group country strategy with Honduras (2019-2022): "expansion of sustainable production opportunities," particularly through two of its three strategic objectives: (i) technological innovation and adoption; (ii) access to financing. It is also closely linked to the third crosscutting issue of the country strategy for 2019-2022: "innovation and the use of new technologies to achieve greater relevance and efficiency in interventions." The project is consistent with the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (document GN-2996), which is part of the support being offered for economic productivity and employment, and with the Tourism Sector Framework Document (document GN-2779-5), particularly through the lines of action and operational activities under the first "dimension of success" related to competitiveness and innovation in the tourism sector.
- 3.2 Coordination will take place with the project "Digital Transformation for Increased Competitiveness" (operation HO-L1202), as well as with the Global Credit Program for Safeguarding the Productive Fabric and Employment (operation HO-L1216) and technical cooperation programs financed by IDB Lab in Honduras (including "Tech4Dev" (operation HO-T1352), and "Naranja Republik" (operation HO-T1322)). Experiences supporting digitalization in other countries like Brazil, Chile, Colombia, Spain, and Japan will also be taken into account. More specifically, and in line with

⁴⁸ www.wexchange.co.

⁴⁹ The terms of reference will be set jointly by IDB Lab and the EU.

the document “Intervention Proposals for the Recovery and Promotion of Productive Development” published by the Competitiveness, Technology, and Innovation Division (CTI), coordination is taking place with the initiative **“Madurez Digital de PYMES en Centroamérica y República Dominicana” [Digital Maturity of SMEs in Central America and the Dominican Republic]**, which won the Innovative Solutions for COVID-19 competition organized by the Vice Presidency for Countries. This initiative will offer countries in the Country Department for Central America, Haiti, Mexico, Panama and the Dominican Republic (CID)—Honduras among them—a self-diagnostic digital maturity tool developed in Chile, which will be supplemented with a survey of the current business digitalization services available in the country. The initiative will also assist countries in designing and developing digitalization services to offer their businesses.

- 3.3 Efforts will also be coordinated with the following IDB Lab initiatives: (1) INTEcGRA—Continuity and Resilience of Neighborhood Stores (IDB Lab initiative with the Office of Outreach and Partnerships (ORP), IDB Invest, and several companies that sell mass consumption products); and (2) the Beyond Tourism Innovation Challenge, in collaboration with the United Nations World Tourism Organization, which seeks to identify business models that will transform and revitalize the tourism sector. In addition, the best international solutions from Israel, South Korea, Spain, the United States, and other countries will be identified, and linkages will be formed with them through IDB Lab networks.
- 3.4 The project will also seek to leverage resources from the Women Entrepreneurs Finance Initiative (We-Fi) through its program “Women Entrepreneurs for Latin America and the Caribbean (WeForLac)” to finance activities that facilitate digitalization, access to financing, and training in digital skills for women-led microenterprises and small businesses. Complementary actions will also be coordinated with the project “Business Development Services and Favorable Environment for Women Entrepreneurs in Honduras” (operation HO-T1353), also supported with We-Fi funds. Finally, efforts will be made to identify synergies with other European Union initiatives such as EUROSAN and Eurecna, and with MSME digitalization projects launched in Honduras by the Organization of American States, USAID, and others.

B. Scalability

- 3.5 To ensure scalability, the project will seek to build a model network using the Open Innovation Hub (Digital Hub 504) to connect local and external (regional and international) stakeholders, incubators, academic institutions, financial institutions, and tech-based startups. This network will help promote, test, sustain, and expand innovation and digital transformation in Honduran enterprises. After the project is finished, the Hub should continue to operate as part of the services offered by FEDECAMARA to its members and the business community. In this way, the Hub will ensure the continuity and sustainability of efforts made through the project. Additionally, the database to track the impact of digitalization will help build a solid case to convince the financial system that investing in digitalization is profitable, which will assist in securing further funds.
- 3.6 This project will be designed to create resources that enterprises can access to get the support they need for their digital transformation and the people involved in it. This will also help them acquire cloud-based services and online payment systems like PayPal, as well as solutions for mobile phone payment, email, chat, and social

media. The project team also suggests designing and testing a program to establish linkages with higher education students and those in the public and private vocational education system,⁵⁰ and coordinate the digital innovation ecosystem to overcome specific innovation challenges in the targeted sectors.

- 3.7 The project will benefit from the institutional capacity and national reach of FEDECAMARA, a highly representative entity with vast knowledge of the microenterprise and small business sector. FEDECAMARA's work will be crucial to consolidate agreements and partnerships with relevant public and private sector stakeholders that can help drive scalability. The public sector's involvement in the project has been coordinated very closely through the National Service for Entrepreneurship and Small Business (SENPRENDE), the main entity that implements public policies to support MSMEs. This will ensure that the project's actions are consistent with national business and employment policies, and that the public sector can adapt to the changes that digitalization will bring about in enterprises. Potential complementarities between the project's objectives and the priorities of other donors in Honduras will be identified through the G-16.⁵¹

C. Project and institutional risks

- 3.8 **Risk:** A lack of digital solutions suitable to the local context. **Mitigating factor:** The project will entail coordination with the digital innovation ecosystem to spur the creation of appropriate solutions. More specifically, the conditions and selection criteria of the call for proposals and the support ultimately awarded (Component 1) will motivate providers to adapt and refine their digital solutions so they are better suited to the particular characteristics of the beneficiary enterprises.
- 3.9 **Risk:** The businesses that will develop and/or adapt technology solutions under Component 1 are not capable of meeting the EU's conditions regarding procurement, data privacy, etc. **Mitigating factor:** These elements in particular will be strengthened in the bidding conditions and selection criteria.
- 3.10 **Risk:** The technology solutions developed are not within reach for businesses that do not receive project financing. **Mitigating factor:** The elements of the bidding conditions and selection criteria indicating that the solutions must be tailored to the Honduran context will be strengthened, and priority will be given to solutions with a model that make them more accessible to microenterprises and small businesses.
- 3.11 **Risk:** Resistance to change and digital transformation from microenterprises and small businesses. **Mitigating factor:** Ongoing monitoring and support during the digital transition, an awareness-raising plan, communication, and the visibility of good practices in the region (which show how adopting new technologies has a positive impact on businesses).
- 3.12 **Risk:** Difficulty coordinating the main public and private sector stakeholders. **Mitigating factor:** This risk will be managed by maintaining a flow of information and constant communication with chambers of commerce, and relying on a monitoring and communication system to ensure that actions are continuously implemented and documented. The intensive participation of all relevant

⁵⁰ INFOP, CADERH, and any others identified. Linkages could also be forged with universities in other countries through collaboration agreements.

⁵¹ The G-16 is a group consisting of the 16 main donor countries and international organizations that support Honduras. It allows donors and cooperating partners to coordinate common guidelines.

stakeholders in the Hub will be ensured (Component 4) so that it can serve as a central point to coordinate collective actions.

- 3.13 **Risk:** Insufficient connectivity and scant broadband. **Mitigating factor:** There will be coordination with project HO-L1202 “Digital Transformation for Increased Competitiveness” to work in regions with the best connectivity conditions for this project.
- 3.14 **Risk:** Lack of commitment on the part of beneficiary enterprises to ensure the continuity of the digital transformation after specific activities end. **Mitigating factor:** The call for proposals selection process will assess the participating enterprises’ capacity and commitment to go digital.
- 3.15 **Risk:** Limited institutional capacities in chambers of commerce to implement nontraditional and digital services. **Mitigating factor:** This risk will be managed by developing partnerships, methodologies, and tools; promoting skills development, and training chamber of commerce and partner staff.

IV. BUDGET INSTRUMENT AND PROPOSAL

- 4.1 The total cost of the project is US\$13,030,000, of which US\$500,000 will be contributed by IDB Lab, US\$5,474,000 (€4,600,000) will be contributed by the European Union, and US\$7,056,000 will be contributed by FEDECAMARA as counterpart financing.
- 4.2 The EU resources for this operation will be transferred to the Bank through a delegation agreement that will be subject to the 10 June 2015 Administrative Framework Agreement between the European Union and the IDB (Framework Agreement between the EU and the IDB).⁵² The IDB and the EU are negotiating an updated Framework Agreement. If the Board approves the updated agreement and the IDB and EU sign it before this project is approved, the updated Framework Agreement will become the applicable framework.

⁵² Through the Framework Agreement between the EU and the IDB, the EU’s standard contractual conditions, known as the Pillar Assessed Grant or Delegation Agreement (PAGODA), are modified, complemented and interpreted, to adapt them to the Bank’s specific requirements. This agreement, approved through document GN-2610-2, requires implementation of expanded procurement standards and additional rules on eligibility of expenditures, budget amendment, reporting, and integration of a communication and visibility plan, among other things.

| Project components | Amounts (US\$/€) | | | |
|--|-----------------------------|---------------------------------|---------------------------------|-----------------------------------|
| | IDB Lab | European Union | Counterpart | Total |
| Component 1: Call for proposals to identify and disseminate innovative solutions | 52,000/ 43,680 | 1,709,425/ 1,436,491 | 13,000/ 10,920 | 1,774,425/ 1,490,517 |
| Component 2: Support to businesses for the digital transition | 75,000/ 63,000 | 749,074/ 629,474 | 175,000/ 147,000 | 999,074/ 839,222 |
| Component 3: Access to financing for digitalization | 20,000/ 16,800 | 115,242/ 96,842 | 4,840,000/ 4,065,600 | 4,975,242/ 4,179,203 |
| Component 4: Creation of the Open Innovation Hub | 273,000/ 229,320 | 1,932,714/ 1,624,129 | 1,828,000/ 1,535,520 | 4,033,714/ 3,388,319 |
| Project administration | 70,000/ 58,800 | 518,589 | 200,000/ 168,000 | 788,589/ 662,414 |
| Evaluations, audits, and contingencies | 10,000/ 8400 | 131,464/ 110,475 | 0 | 141,464/ 118,830 |
| Administration fee (5.8% on €4,600,000) | 0 | 317,492/ 266,800 | 0 | 317,492/ 266,799 |
| Grand total | 500,000/ 420,000 | 5,474,000/ 4,600,000 | 7,056,000/ 5,927,040 | 13,030,000/ 10,945,307 |
| Percentage of financing | 4% | 43% | 53% | 100% |

V. EXECUTING AGENCY AND IMPLEMENTATION STRUCTURE

A. Description of the executing agency

- 5.1 The executing agency will be FEDECAMARA (a member of COHEP),⁵³ which is the consultative body and official advisor of the Honduran chambers of commerce and industry. FEDECAMARA consists of 53 chambers and similar organizations that operate in 17 of the country's 18 departments and bring together businesses of all types and sizes (micro, small, medium-sized, and large enterprises). The entity strives to assist chambers of commerce and industry in remaining up-to-date in terms of modernization, efficacy, and speed in the delivery of services. It operates with countrywide coverage. FEDECAMARA also interacts with municipalities, mesas territoriales de empleo [municipal labor organizations], academia, and the MSME Business Development Centers (CDE-MIPYME), which are made up of 200 public and private institutions that provide comprehensive support to enterprises. This could optimize project implementation.
- 5.2 FEDECAMARA has experience executing projects, including the MSME Emergency Fund, which has nationwide coverage through 20 member chambers of commerce and industries. The fund's objective is to promote and sustain business investment and jobs through MSME training and technical assistance to improve competitiveness, productivity, and inclusion amid the COVID-19 crisis. The Emergency Fund project falls under the national economic reactivation plan and receives support from the National Investment Council to help MSMEs adapt their business models through the implementation of innovation, digitalization, marketing, financing, or logistics.

⁵³ COHEP is a highly representative business organization with experience coordinating the sector. It brings together a large number of private organizations from the different sectors of the country's economy.

B. Implementation structure and mechanism

- 5.3 FEDECAMARA will establish an execution unit and a structure to perform the project's activities and administer funds efficiently and effectively. FEDECAMARA is responsible for complying with the conditions established in the agreement between the Bank and FEDECAMARA and the supplemental agreement, which includes requirements related to delivery of the narrative and financial reports regarding procurement, restrictive measures, and the file retention period. FEDECAMARA will be in charge of managing all project disbursements, financial reports, and procurement, which includes supervising fulfillment of the EU's restrictive measures in the project's procurement and in procurement performed with EU resources by organizations awarded funds through innovation competitions (Component 1) and will ensure compliance with Bank policies, where applicable. FEDECAMARA will be responsible for submitting technical and financial reports during project implementation. Annex V of the project's technical files contains more detailed information on the structure of the execution unit and reporting requirements. The project's audited financial statements⁵⁴ will have an internal control report and will be submitted to the Bank within 90 days of the fiscal year close. Financial information will be presented in euros and U.S. dollars.
- 5.4 An operating committee will be formed to supervise project implementation and provide general guidance. This committee will meet quarterly and on an ad hoc basis whenever FEDECAMARA, in its capacity as the executing agency, or the European Union and IDB Lab, as financial partners, so request or require. The committee's main roles will be to: (i) monitor technical execution, fulfillment of contractual conditions, and the submission of reports; (ii) review annual progress reports and project status reports; (iii) monitor the project's risks and mitigation measures, and update them as necessary; (iv) assess any difficulties that emerge during the project's implementation and approve any activities required to address them; (v) monitor the budget; (vi) participate in project-related promotion, visibility, and communication activities; and (vii) review and approve the final list of organizations selected for financing through innovation competitions (Component 1). The committee will consist of representatives from the European Union delegation and IDB Lab, and other stakeholders or partners may be invited to participate as necessary.

VI. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 6.1 **Results-based disbursements and fiduciary arrangements.** The executing agency will agree to follow standard IDB Lab procedures for results-based disbursements related to fulfillment of Appendix 4 of the Policies for the Procurement of Goods and Works (document GN-2349-15) and Policies for the Selection and Contracting of Consultants financed by the Inter-American Development Bank (document GN-2350-15),⁵⁵ as well as procedures for financial management⁵⁶ applicable to the private sector, as established in the Guide to Milestone-based Management and Financial Supervision for Technical Cooperation from IDB Lab and the Social Entrepreneurship Program and Operational Policy OP-273-12 (Financial Management Guidelines for IDB-financed projects). IDB Lab sets aside

⁵⁴ Narrative reports will be submitted to the Bank within 30 days of the fiscal year close.

⁵⁵ <https://www.iadb.org/en/projects/project-procurement>.

⁵⁶ Link to the [Financial Management Guidelines for IDB-financed Projects](#).

funds for audits (or ex post supervision), which it may use according to the project's supervision needs.

- 6.2 The aforementioned information is consistent with the finding of the Integrity and Institutional Capacity Assessment. FEDECAMARA manages resources from private funds and donor organizations, which it accesses to carry out its projects and activities. These resources are audited annually. The Federation also has a monitoring and accountability mechanism supported by an audit firm that is contracted to provide guidance on such issues and prepare the institution's audited financial statements.

VII. INTELLECTUAL PROPERTY

- 7.1 The Bank will hold and own any and all intellectual property rights, including but not limited to copyrights, related to and/or associated with all deliverables to be developed, to wit: specialized technical assistance, studies on trends, studies on alternative instruments for sector financing, studies on modalities for the recording/use of intellectual property in the sector, or other similar studies relevant to the project.