



Board of Executive Directors

Short Procedure

Expires on 13 December 2010

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To: The Board of Executive Directors

From: The Secretary

Subject: Honduras. Executive summary of the nonreimbursable financing proposal and technical cooperation for the project “Community Development, Rural Business, and Food Security in Copán”

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Remarks: This operation is presented in accordance with Resolution DE-183/98 authorizing the “Reform of the Small Projects Program and creation of a Social Entrepreneurship Program” and meets the criteria established in document GP-75-9.

The amount of the technical cooperation component exceeds the limit established for operations of this kind; consequently, this document is submitted for consideration by short procedure. The Executive Directors are requested to inform the Secretary, in writing, no later than **13 December 2010**, if they wish to interrupt this procedure. If no such communication is received by that date, the resolution will be considered adopted by the Board of Executive Directors, and a record to that effect will be made in the minutes of a forthcoming meeting.

Reference: GP-75-9(11/98), MIF/GN-127(9/07), MIF/GN-127-1(9/08)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HONDURAS

SOCIAL ENTREPRENEURSHIP PROGRAM

EXECUTIVE SUMMARY

COMMUNITY DEVELOPMENT, RURAL BUSINESS, AND FOOD SECURITY IN COPÁN

(HO-S1018)

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PROJECT TECHNICAL FILES

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Document 3	Technical-cooperation plan of operations
Document 4	Terms of reference for project technical staff
Document 5	Regulations for use of nonreimbursable financing
Document 6	Minutes of the Bank's Environmental and Social Impact Review Secretariat
Document 7	Integrity review
Document 8	OCDIH financial statements
Document 9	Project environmental and social strategy
Document 10	Project milestones table

OTHER DOCUMENTS REVIEWED

OCDIH by-laws
OCDIH financial statements
Draft procurement plan

ABBREVIATIONS

CACRs	Cajas de Ahorro y Crédito Rural [Rural savings and loan associations]
CODESPA	Fundación Cooperación al Desarrollo y Promoción de Actividades Asistenciales [Foundation for Development Cooperation and the Promotion of Aid Activities]
ESS	Environmental and Social Strategy
FAO	Food and Agriculture Organization of the United Nations
FAPES	Foro Ambiental para el Progreso Económico y Social [Environmental Forum for Economic and Social Progress]
MIF	Multilateral Investment Fund
OCDIH	Organismo Cristiano de Desarrollo Integral de Honduras [Christian Organization for the Comprehensive Development of Honduras]
SEP	Social Entrepreneurship Program
PSR	Project status report

I. PROJECT OVERVIEW

- A. **Executing agency:** Christian Organization for the Comprehensive Development of Honduras (OCDIH), a mutual benefit association

B. **Amount and source of financing**

	IDB US\$	Local US\$	Total US\$
Nonreimbursable financing:	84,295	-	84,295
Nonreimbursable technical-cooperation funding:	<u>290,705</u>	<u>122,305</u>	<u>413,010</u>
Total:	375,000	122,305	497,305

Source: net income of the Fund for Special Operations.

C. **Terms and conditions**

	Nonreimbursable financing	Nonreimbursable technical-cooperation funding
Execution period:	36 months	36 months
Disbursement period:	42 months	42 months

D. **Statement of no objection**

- 1.1 On 21 September, the Government of Honduras granted its no objection to the project in official letter No. CP-DEN-2103/2010.

E. **Problem to be addressed**

- 1.2 **Socioeconomic context of Copán.** It is estimated that poverty affects 60% of the population of Honduras (approximately 4.3 million people), and extreme poverty affects 35%.¹ In rural areas, where these percentages are even higher, one of the factors contributing to poverty is the difficulty of generating income from farming, an activity in which a large part of the working population is engaged. According to the 2005 Food and Agriculture Organization (FAO) report, 240,000 rural families do not have land to farm.
- 1.3 The western department of Copán, home to a population of 289,000, is among the six poorest departments in the country, and the distribution of wealth is among the most uneven. The population lives in a fragile environment that is vulnerable to climate change, and is dependent mainly on agriculture. In the municipios of La Florida, La Jigua, Nueva Arcadia, San Antonio, San Nicolás, and Trinidad, the primary activity of the low-income, rural population is growing coffee, basic grains—mainly beans and corn—and, to a lesser degree and depending on elevation and climate conditions, cacao, bananas, passion fruit, and cassava. There are also families that grow vegetables on a small scale, for example tomatoes and carrots.

¹ Data obtained from the Permanent Household Survey conducted by the Honduran National Statistics Institute.

- The population's livelihood is based on subsistence farming combined with trade and services.
- 1.4 In the six municipios mentioned above, it is common for women to raise cattle and smaller livestock, participate in microenterprise activities, mainly trade and services, and take care of the children and home, while men work in agriculture, both independently and as rural farmhands. The average monthly income for poor families without land in Copán is US\$126, and for poor families with land, US\$244.² Neither group can cover the basic shopping basket, which, according to FAO data, was \$315 per month in 2008.
 - 1.5 The Christian Organization for the Comprehensive Development of Honduras (OCDIH), based in the capital of the department of Copán, has been working with poor, rural communities that have no or very limited access to land. It has a methodology for rural development based on food security, civic participation in local government, environmental stewardship, sustainable farm management, and alliance-building.
 - 1.6 **The problem to be addressed.** The problems faced by the rural poor of Copán are diverse; however, they center around four key issues:
 - 1.7 **Environmental deterioration and lack of food security.** The municipios of Copán are facing increasing changes in weather patterns, with droughts and flooding, the effects of which are catastrophic on hillsides subject to deforestation and erosion, where people live in makeshift housing. Moreover, the population has not been making sustainable use of natural resources; for example, mismanaging, polluting, and wasting water, subjecting productive land to environmentally harmful agriculture (burning, excessive use of fertilizers, etc.), and handling waste management inadequately. All of this increases the vulnerability of the rural poor and leads to a lack of food security. Although corn, beans, cassava, and other basic food products are grown locally, they are sold to intermediaries or producer associations during the periods of higher production. There are no savings in cash or in kind, and income from the sale is used to purchase food in shops, without any reserves of food or savings to purchase food during periods of low production. The population is unfamiliar with food security solutions based on small-scale diversification in family gardens. On a positive note, some informal reserves of basic grains have been established, set up in homes, and are managed by the rural savings and loan associations supported by OCDIH.
 - 1.8 **Limited productive and commercial capacity of small-scale producers.** The situation of Copán's small-scale producers is very unstable. They often have little or no access to means of production, equipment, and land, are unfamiliar with basic production techniques, and lack mechanisms to connect to markets. This limits the quantity, quality, variety, and profitability of their agricultural production. In this context, the population works in subsistence economies, making it difficult to

² According to semiannual data updates performed by OCDIH in several of the department's municipios.

manage business projects. Moreover, this limited capacity is compounded by two factors: the isolation in which many families work—both for production and for getting products to market—and the limited organizational and business capacity of the producer associations operating in the area.

- 1.9 **Limited capacity of local stakeholders.** Local stakeholders—both public and private—and civil society organizations lack the experience and technical background necessary to spearhead changes in local economic structures that would allow the population to develop financially and environmentally sustainable livelihoods and promote improvement in the socioeconomic conditions of families. Given this problem, OCDIH has been working in Copán with local social organizations—community boards, water councils, and citizen transparency commissions, among others—to strengthen rural civil society and increase participation in local governments in order to establish mechanisms for citizen participation, the democratization of the budget process, and transparency. Leagues of municipios have been formed to seek joint resolution to problems facing municipios; however, these leagues lack experience in designing local economic development projects and projects to support food security.
- 1.10 **Access to financing.** There are a few banking and microfinance institutions operating in the six municipios, such as: PILARH, Hermandad de Honduras, Finsol, and Bancovelo. Nevertheless, very few loans are extended to the area's small-scale producers. This is due to the fact that loan terms are not suited to small-scale farming. Specifically, they have limits with respect to the duration, amount, and type of activity to be financed, and they often impose requirements and guarantees, including collateral securities and property, requirements which cannot be met by small-scale producers who lack land deeds and titles. For these reasons, most farmers do not have access to financing that meets their specific needs.
- 1.11 In order to address this problem, OCDIH has been working in the area since 2006 to organize and strengthen 62 rural savings and loan associations (CACRs), which are alternative mechanisms for rural savings and loans in the project areas. It is also supporting the establishment of the Cuna Maya Savings and Loan Cooperative (Cuna Maya Cooperative), whose initial affiliates will be 17 rural savings and loan associations supported by OCDIH. Through the Cuna Maya Cooperative, campesino families will have access to loans that meet their needs, thus helping to strengthen rural agriculture and support any business initiatives that may arise in the communities covered by the project. Currently OCDIH is working with 29 CACRs, encompassing 930 members, 450 of whom are women. More than half of the members on the boards of directors are also women. These CACRs have a US\$102,900 credit portfolio and US\$119,000 in capital. The technical files include detailed information on the 29 CACRs.
- 1.12 **Solution proposed by the Social Entrepreneurship Program (SEP).** Given the problem described above, this SEP project is innovative because it seeks to combine several small-scale intervention approaches in order to test a comprehensive model. The idea is to approach poverty mitigation in a territory

- covering six municipios from several complementary angles: agroecological production techniques, food security methodologies such as demonstration farms, business alliance-building, citizen involvement in local governments, and strengthening of the CACRs.
- 1.13 The changes sought will not come directly from interventions in the municipios, but rather from the impact generated by these different lines of intervention. For example, the impact on food security will not come from the 30 demonstration farms, but rather from the many replications in the communities, in the form of family gardens incorporating the techniques, and the same holds true for the project's other interventions.
- 1.14 **Structuring the project.** In order to respond to the problems described in relation to the four key issues mentioned above, OCDIH has proposed a sustainable rural development project in six of the department's municipios: La Florida, La Jigua, Nueva Arcadia, San Antonio, San Nicolás, and Trinidad. Some key elements of the proposed solution are particularly worth noting: (i) concerning food security: 220 families will increase their production of basic grains, 10 CACR-managed community reserves will be strengthened, 30 comprehensive demonstration farms will be established and replicated (also called comprehensive family gardens when replicated on a family level), (ii) concerning environmental management: agroecological techniques will be incorporated both for basic grains and for family gardens, and trees will be planted to protect soils and irrigation zones, (iii) concerning the limited productive and business capacity of beneficiaries: two business networks will be created to market agricultural products locally, (iv) concerning the limited capacity of local stakeholders: citizen involvement in local government will be increased, and (v) concerning rural financial services: the role of the CACRs and the Cuna Maya Cooperative, encompassing 17 CACRs, will be strengthened.
- 1.15 **Capacity and eligibility of the executing agency.** The Christian Organization for the Comprehensive Development of Honduras (OCDIH) is a mutual benefit association that has been supporting development processes since 1994 with poor rural communities in the departments of Copán, Santa Bárbara, Lempira, and southern Cortés, with indigenous and campesino populations that have no or very limited access to land. OCDIH was the subexecuting agency for the SEP project facility FAPES-CODESPA, and its legal status makes it eligible as an executing agency for a SEP project. The Bank has performed an institutional analysis, which is included in the project's technical files. The analysis shows OCDIH to have the technical and operational capacity to execute the project.
- 1.16 During its 16 years of experience, OCDIH has met targets that make it possible to anticipate that it will be able to meet the targets of this project. In particular, OCDIH has: (i) trained over 400 campesinos in agricultural outreach, most of whom are living in communities where they support other families in the department's other municipios; (ii) organized and strengthened several producer associations and cooperatives that promote agricultural development in their

municipios and have been successfully selling products through supermarkets; (iii) promoted agricultural initiatives that increase food security, such as family gardens, comprehensive farms, and strategic reserves of grain, among others, with a focus on spreading sustainable agriculture; and (iv) achieved an increase of over 40% in incomes for the beneficiaries of its projects as a result of improvements in production.³

- 1.17 **Beneficiaries.** The project will directly benefit 380 families in six municipios, whose income and food security is expected to increase. It will indirectly benefit approximately 5,150 people in the six municipios; participating families will be encouraged to share techniques and information about sustainable crops and build business capacities that drive production, employment, and income generation. The project will also provide indirect benefits with actions such as: implementing regional committees for citizen participation, promoting social audits of public funds, as well as encouraging public-private mechanisms for dialogue as part of the decision-making process, in order for development initiatives to be implemented within the framework of municipal strategic plans.

II. THE PROJECT

A. Goal and purpose

- 2.1 The goal of the project is to contribute to improving the socioeconomic conditions of small-scale farming families in six municipios in the department of Copán.
- 2.2 The purpose of the project is to promote a comprehensive, replicable rural development model in Honduras that includes: food security, environmental sustainability, business alliance-building, citizen participation, and access to financing.

B. Description

- 2.3 In order to achieve the above, the project has two components: (i) technical-cooperation funding in the amount of US\$290,705 from the Bank, with a local counterpart contribution of US\$122,305, and (ii) nonreimbursable financing (NRF) from the Bank in the amount of US\$84,295.
- 2.4 **The technical cooperation funding (IDB: US\$290,705; local contribution: US\$122,305)** covers four subcomponents:
- 2.5 *Subcomponent 1: Agroecological management for sustainable production: food security and local markets* (IDB: US\$55,920; local contribution: US\$12,450). The goal of this subcomponent is to strengthen the production capacities of small-scale farmers in order to support food security and the generation of income with crops suitable for the local market.

³ Economic Justice and Access to Rural Services Project financed by Oxfam and executed by OCDIH.

- 2.6 In order to achieve this goal, this subcomponent includes the following activities: (i) increasing the production of basic grains and strengthening 10 community grain reserves for food security;⁴ (ii) establishing demonstration family gardens,⁵ in order to spread models of agricultural diversification, the incorporation of agroecological techniques, and food security; (iii) training top producers as leaders; (iv) replicating training workshops through campesino agricultural outreach workers; (v) establishing tree nurseries; and (vi) creating field schools for imparting agroecological techniques.
- 2.7 As a consequence of these activities, the project will achieve the following outcomes: (i) 220 families will farm at least 157 hectares producing 5,500 quintals of basic grains—corn and beans, which will be sold locally and contribute to building community-managed reserves; (ii) at least 220 families will incorporate sustainable production approaches—agroecological techniques, plant separation, varieties of species, and soil conservation with vegetated buffers; (iii) in the project's six municipios, at least 30 families will manage demonstration farms with a variety of fruits and vegetables, using ecotechnologies and incorporating small animal husbandry; (iv) 30 top local producers will receive training in agricultural techniques and in replicating what they have learned; (v) 225 producers will receive training in agricultural techniques from the 30 local leaders trained by the project; and (vi) the irrigation water zones in at least two of the project's municipios will be protected by planting 10,000 trees.
- 2.8 *Subcomponent 2: Promotion of business alliance-building for production and market access* (IDB: US\$71,480; local contribution: US\$34,550). The goal of this subcomponent is to facilitate access to local markets for small-scale producers in the six municipios by organizing two business networks based on the territory's capability and common interests of the residents. Resources will be used for: (i) holding training workshops on alliance-building; (ii) identifying, organizing, and forming at least two business networks; (iii) holding training workshops on phytosanitary quality standards for sales, post-harvest handling, presentation, and packaging; and (iv) implementing and strengthening the business networks. As a result of these activities, outcomes include: (i) formation of two business networks

⁴ A strategic basic grain reserve is an associative mechanism for storing beans, corn, rice, and other long-lasting grains produced locally to then sell to members during periods of low production. It can be implemented by many types of organizations. In the case of OCDIH, it is implemented by rural savings and loan associations and associations of producers or rural residents in the context of their productive projects.

⁵ A family garden is a small farm, generally less than a quarter hectare, where the family engages in diversified production, taking advantage of synergies among different plants, small animals, and low-cost agroecological techniques. For example, the shade from trees is used to protect sun-sensitive crops; onions, chilies, and garlic are planted to keep insects away; excess vegetables are used to feed animals; and worm composting and other techniques are used for organic fertilization, etc. On a daily basis, these gardens produce a variety of fruits and vegetables, eggs, milk, and eventually meat from smaller animals that provide food security for the families using them, and they often generate surplus production that is sold to provide income for the family. The Social Entrepreneurship Program has successfully supported this type of food security strategy in other projects.

in operation with productive infrastructure, managing at least two sales contracts on the local market level; (ii) training of at least 30 farmers in basic alliance-building skills, and motivational, quality, and market access techniques, so they can serve as network leaders; and (iii) the project's business alliances will have achieved some of the following milestones in independent marketing: trademarks, patents, and/or distinctive labeling.

- 2.9 *Subcomponent 3: Local economic development and consolidation of active citizen participation* (IDB: US\$69,560; local contribution: US\$8,150): This subcomponent aims to build citizens' capacities so they can play an active role in local government in order to promote productive development initiatives and food security in six municipios of Copán. Resources will be used for: (i) facilitating the public-private dialogue process in two leagues of municipios; (ii) reviewing, updating, and validating two territorial strategic plans; (iii) strengthening two committees for citizen participation (for issues such as food security and environmental management); (iv) holding eight workshops to train individuals for social oversight at the community level; and (v) providing support in the implementation of two social audit exercises led by the citizen transparency commissions.
- 2.10 As a result of these activities, outcomes include: (i) coordination agreements between the private sector and the leagues of municipios to develop projects that promote production and food security; (ii) updated strategic plans for the leagues of municipios, incorporating the population's input in their preparation, and including the population's priorities; (iii) implementation of sector-based committees with representation from the different social sectors, in order to submit proposals to local and national authorities to gain support for initiatives that promote community production and food security, such as more public spending to strengthen farming activities, the establishment of municipal reserves of basic grains, and municipal guidelines to protect water-producing areas; (iv) initiation of community-based productive business projects to generate income and food security for low-income families; and (v) training and deployment of community-based social oversight agents to monitor the public funds invested in their communities, and of transparency commissions to audit the resources invested and take action based on the results they obtain.
- 2.11 *Subcomponent 4: Rural financial services.* (IDB: US\$5,000; local contribution: US\$2,000). The goal of this subcomponent is to strengthen local financial intermediation structures by supporting the Cuna Maya Cooperative, which encompasses 17 rural savings and loan associations in the project area. This subcomponent will complement the support already provided to the CACRs and the Cooperative by OCDIH with its personnel and resources, and as such will not require additional resources, even though the CACRs will play a central role in financing productive activities and in managing community grain reserves. The project will finance technical assistance in order to strengthen the savings and loan cooperative in the areas of corporate governance, financial/accounting management, and review of credit policies and operating regulations. As a result of

this technical assistance, the new savings and loan cooperative will comply with the minimum standards for cooperative performance, such that it can meet the financial service needs of individuals in the community as well as the cooperative's member CACRs.

- 2.12 *Coordination, evaluation, auditing, and monitoring* (IDB: US\$88,745; local contribution: US\$65,155). This subcomponent aims to support the project's overall management. Resources will be used to hire an administrative accounting coordinator and a technical coordinator, and to pay for the project baseline to be established and for evaluations and audits. The local counterpart contribution will finance the time spent on the project by the project director, a general administrator, and a planning coordinator.
- 2.13 **Component 2: Nonreimbursable financing** (IDB: US\$84,295). This component will help finance investments in basic infrastructure and inputs for project subcomponents 1, 2, and 4, in order to fulfill the project objectives indicated in the description of the technical cooperation component:
- 2.14 *Subcomponent 1: Agroecological management for sustainable production: food security and local markets* (IDB: US\$54,320). In order to execute this subcomponent, financing will be provided for: (i) production inputs (seeds, fertilizer, tools); (ii) plant matter (seeds, seedlings, stocks); (iii) infrastructure for production and grain storage in community reserves; and (iv) ecological equipment (20 improved demonstration stoves, 15 anaerobic digesters, and 15 composters).
- 2.15 *Subcomponent 2: Business alliance-building* (IDB: US\$26,150). This subcomponent will finance: (i) purchases of plant matter, and (ii) productive infrastructure (irrigation system, greenhouses, boxes, extractor, freezers, and beekeeping infrastructure).
- 2.16 *Subcomponent 3: Local economic development and consolidation of active citizen participation.* This subcomponent does not have nonreimbursable financing resources; it receives only technical cooperation funding.
- 2.17 *Subcomponent 4: Rural financial services* (IDB: US\$3,825). In order to fulfill the goals of this subcomponent, the project will finance basic furniture and equipment: desk, filing system, computers, and an accounting package for the Cuna Maya Cooperative.

C. Project cost

- 2.18 The project's itemized budget is in the project technical files. The table appearing below shows the cost of the project's subcomponents.

TABLE 1 – PROJECT BUDGET IN US\$

	Nonreimbursable financing	Technical cooperation funding			Project
Items	Bank	Bank	Local	Total	Total
C1 Agroecological management for sustainable production: food security and local markets	54,320	55,920	12,450	68,370	122,690
C2 Promotion of business alliance-building for production and market access	26,150	71,480	34,550	106,030	132,180
C3 Local economic development and consolidation of active citizen participation	0	69,560	8,150	77,710	77,710
C4 Rural financial services	3,825	5,000	2,000	7,000	10,825
C5 Coordination, evaluation, auditing, and monitoring	0	88,745	65,155	153,900	153,900
<i>Amount of the above for auditing</i>		<i>10,000</i>		<i>10,000</i>	<i>10,000</i>
Project total	84,295	290,705	122,305	413,010	497,305
Total IDB contribution	84,295	290,705			375,000

D. Project sustainability

2.19 This project will be sustainable in that it will lay the groundwork for sustainable rural development, incorporating elements that support food security, environmental stewardship, increases in and rural marketing of production, citizen participation in local government, and access to rural financial services. These elements will be established in the six communities as a result of this project. OCDIH will maintain a presence in the project's six municipios, which will then represent a small-scale model for sustainable rural economic development with SEP support. The proposed productive activities will be financed in two stages. Initially the project will make demonstration investments available to small-scale producers with nonreimbursable financing administered by OCDIH for demonstration farms, family gardens, vegetated buffers, anaerobic digesters, etc. Later, small-scale producers can replicate these types of investments with loans through the rural savings and loan associations and the Cuna Maya Savings and Loan Cooperative through OCDIH.

2.20 The analysis of the financial statements from 2007 to 2009 (technical files) shows that OCDIH is an institution that covers all of its operating costs over the normal course of operations. According to the audited financial statements, at the close of 2009, OCDIH had assets totaling US\$2,290,433, with liabilities equaling US\$789,907, and equity of US\$1,500,526. Gross operating revenue in 2009 was US\$2,775,880, which came primarily from managing international cooperation projects with organizations such as Oxfam, the Interchurch Organisation for Development Cooperation (ICCO) Netherlands, and the Canadian International Development Agency. The technical files include the project's financial statements.

E. Expected outcomes and benefits

2.21 **Expected outcomes.** Upon project completion, it is expected that the following outcomes will have been achieved with respect to the project's baseline: (i) an increase in incomes of at least 40% for sales of surplus production in the case of producers who have been receiving the support of project subcomponents 1, 2, and

4 for at least two years; (ii) improvement in food security and environmental sustainability indicators in the project area; (iii) the presence of at least two business networks in operation in the area; (iv) an increase in investments and actions by local governments to support productive activities; and (v) an increase in the productive activity portfolio at rural savings and loan associations in the six municipios.

F. Strategy of the Bank and the Social Entrepreneurship Program

- 2.22 The project's content is consistent with the priorities of the Bank's country strategy with Honduras (document GN-2475) of March 2008, given that it promotes improvements in the competitiveness of small-scale rural producers by generating opportunities for development and inclusion in the country's socioeconomic growth process. Moreover, the project dovetails with the strategy pursued by the Government of Honduras, aimed at reducing poverty and improving living conditions for the most vulnerable sectors, in a regionalized manner as stipulated in the national plan. Project activities are also consistent with SEP objectives, since they are designed to help protect the most vulnerable rural communities, working on the core themes that contribute to the sustainable development of rural areas in Honduras, and benefit the low-income population and small-scale producers in particular. The project also engages local governments and rural savings and loan associations, which act as mechanisms for rural financial intermediation, thus helping to make economies more dynamic. For the Social Entrepreneurship Program, this intervention is consistent with the line of action related to rural business and finance. This project develops an innovative focus for the SEP in the sense that it incorporates local governments and emphasizes food security and credit through the CACRs.

G. Multilateral Investment Fund (MIF) strategy: Access framework

- 2.23 In the access framework, under the microfinance heading, the agenda is to "expand and diversify the penetration of microfinance services to underserved and rural populations," the specific objective of which is to expand the scope of microfinance services to underserved rural and urban populations mainly through support (loans, technical cooperation funding, capital, etc.) for microfinance institutions. This project is consistent with the MIF's access framework and is in line with the objectives of the above-mentioned agenda since it seeks to serve low-income micro and small-scale producers in rural areas linked to value chains, using the mechanism of rural savings and loan associations.

H. Coordination with other donors

- 2.24 OCDIH has received support in the past from the Inter-American Foundation, a United States government agency, and will receive counterpart resources from Oxfam, of the United Kingdom.

I. Summary of the environmental and social review

- 2.25 The project will have positive environmental impacts associated with establishing and diversifying crops for food security (through demonstration family gardens), improving soil quality with compost, and planting species with strong odors that combat pests (garlic, onion, species of chili), conserving water, and using plastic strips coated with oil to eliminate insects naturally, without pesticides, and promoting crop diversity and rotation to avoid monoculture crops that are more susceptible to pests and disease. Social impacts will also be positive because the project will support the low-income population in the area, which traditionally has not had access to land, markets, or know-how in terms of food security and market access. Moreover, the project promotes the creation of public-private citizen participation committees for the purpose of influencing decisions made by local officials. These committees will act as a mechanism for the social empowerment of the poorest sector of the population, which has generally been excluded from local decision-making processes.
- 2.26 The project has been classified as a category “B” operation. The draft minutes of the Environmental and Social Impact Review Secretariat are in the technical files. The project has an environmental and social strategy (ESS), which was prepared at the request of and in coordination with the Bank’s Environmental and Social Impact Review Secretariat and is also included in the technical files. The ESS identifies activities with environmental and social impacts and measures to be taken. Monitoring reports will verify compliance with the measures described in the ESS.

J. Special conditions

- 2.27 As conditions precedent to the first disbursement of the technical cooperation funding and the nonreimbursable financing, OCDIH will submit, to the Bank’s satisfaction: (i) the approved regulations for use of the nonreimbursable financing; and (ii) an execution plan for the first 12 months of the project, based on the outlined goals.
- 2.28 **Procurement.** Goods and consulting services will be procured in accordance with the provisions of the MIF procurement guidelines approved on 26 June 2008, Policies for the procurement of works and goods financed by the IDB (document GN-2349-7), and Policies for the selection and contracting of consultants financed by the IDB (document GN-2350-7). The procurement plan, which is included in the Bank’s technical files, may be revised and updated with the Bank’s authorization at any time, but must be revised and updated at least annually.
- 2.29 **Advance of funds.** Once the special conditions and stipulated requirements have been met, the Bank will disburse the advance of funds from the contribution to the executing agency. The maximum amount of each advance of funds will be determined by the Bank and will be based on the project’s liquidity needs. The maximum amount of an advance of funds will at no time exceed the amount required to finance expenditures during a period of up to six months, in accordance

with the annual work plan, procurement plan, financing schedule, cash flow, and the proven capacity of the executing agency to efficiently manage the contribution's resources.

- 2.30 The Bank may: (i) increase the maximum amount of the most recent advance of funds when immediate and warranted cash flow needs arise, if the request is made and justified by the financing schedule and cash flow; (ii) grant a new advance of funds, provided that at least 80% of the total cumulative balance of prior advance(s) of funds has been accounted for; and (iii) reduce or cancel the total cumulative balance of advance(s) of funds if it is determined that the contribution's prior disbursements have not been duly utilized or accounted for in a timely manner.
- 2.31 **Execution and disbursement periods:** The execution period for both project components is 36 months and the disbursement period is 42 months.

K. Indicators, reports, evaluations, and audits

- 2.32 **Indicators and the baseline.** OCDIH will be responsible for compiling and analyzing information relevant to monitoring the project performance indicators. During the first six months of execution of the technical cooperation component, OCDIH will prepare and present to the Bank a baseline reflecting the socioeconomic and productive conditions of current and potential project clients, covering four areas: (i) income and socioeconomic conditions of small-scale producers; (ii) food security and environmental sustainability indicators; (iii) status of local government investment and action plans that support productive activities; and (iv) performance and portfolio indicators for the rural savings and loan associations with respect to productive activities in the project's six municipalities.
- 2.33 The baseline indicators, logical framework indicators, and milestone indicators will be the benchmarks used for monitoring project performance. OCDIH and the IDB/MIF will use these indicators for periodic project supervision. They will also be used during the final evaluation of the project. The logical framework indicators may be modified upon agreement between the IDB/MIF and OCDIH.
- 2.34 **Reports.** For the technical cooperation component, OCDIH will be responsible for submitting project status reports (PSRs) to the IDB/MIF within 30 days following the close of each half calendar year, or more frequently, and when requested by the MIF by informing OCDIH at least 60 days in advance. These reports will follow a format agreed upon in advance with the IDB/MIF, reporting progress in project execution, achievement of milestones, results obtained, and their contribution to accomplishing the project's objectives established in the logical framework, the milestones table, and other operational planning instruments. The reports will also include problems encountered during execution, possible solutions, and information regarding the development and application of policies and procedures related to monitoring the social and environmental aspects of the project in accordance with the ESS. Within 90 days after the execution period, OCDIH will submit to the IDB/MIF a final project status report (Final PSR), giving priority to the outcomes achieved, the sustainability plan, and lessons learned. The MIF staff at the Country

Office in Honduras will assume basic responsibility for monitoring the technical cooperation component and the nonreimbursable financing within the IDB, utilizing the aforementioned reports to verify the degree of their execution. OCDIH will make every effort to ensure that the progress of this project is in line with the performance indicators established in the logical framework and its annexes. The IDB/MIF may suspend disbursements in the event of noncompliance with or unjustified departures from: (i) the project execution plan; (ii) the plan of operations; or (iii) the procurement plan.

- 2.35 **Auditing.** OCDIH will establish and be responsible for maintaining appropriate accounting of finances, internal control, and the filing systems for the project, following IDB/MIF standards and policies. OCDIH will prepare the project's financial statements for auditing upon completion of execution. The project's financial statements will be audited upon completion of the technical cooperation component. The IDB/MIF will contract auditors to perform both the audit of the project's financial statements and the ex post review of the procurement processes and disbursement support documentation. The cost of contracting the auditors will be financed from the MIF contribution according to Bank procedures. The ex post review of procurement processes and disbursement support documentation may be modified by the MIF on the basis of reports of subsequent reviews and/or institutional assessments performed during project execution.
- 2.36 **Evaluation.** The project includes two evaluations: a midterm evaluation will be conducted by an individual consultant selected and contracted by the IDB Country Office in Honduras with technical cooperation funds 18 months after the project's first disbursement, or when 50% of the technical cooperation component has been disbursed, whichever occurs first. At a minimum, this midterm evaluation will measure: (a) how the project's four subcomponents have addressed the problems originally identified in Copán; (b) the performance of the executing agency in implementing the project and resolving problems; (c) the extent to which the project's performance indicators have been met; and (d) the lessons learned and recommendations to improve project execution. The final evaluation will focus on documenting: (i) the effects of the project on the groups studied in the initial evaluation; (ii) the outcomes in terms of fulfillment of the objectives and the project indicators; (iii) lessons learned; and (iv) sustainability of the model and ways to replicate the project in other Honduran municipalities.
- 2.37 **Monitoring.** The IDB will review the results and recommendations contained in the PSR and the evaluation reports. Every six months, OCDIH and the Country Office in Honduras will have monitoring meetings to review the progress made in achieving performance indicators and complying with the work plan. The results of the PSRs and the meetings will determine future disbursements for the operation. In the event of significant shortcomings in project execution, the IDB will take the measures that it deems appropriate, including suspension of disbursements if necessary.

L. Risks and mitigating factors

- 2.38 The most significant risk for the project is that the capacity of OCDIH's technical staff to transmit know-how to the beneficiaries could be lower than expected, which is especially important in subcomponents 1, 2, and 4. Specifically, the population could, for example, not adopt environmental management techniques or food security methodologies. In order to mitigate this risk, OCDIH will use a methodology that involves training top producers in the community as leaders who will then replicate what they have learned. This methodology has been used by OCDIH before and helps make the transfer of knowledge more effective.
- 2.39 A second risk is a worsening of the economic and social climate in Honduras, which could lead to instability in the market prices of outputs and the prices of agricultural inputs, or could affect the dynamics of the local economy in Copán. In order to mitigate this risk, the project will continue to emphasize food security and local markets, a strategy that remains valid even if the economic and social climate worsens.
- 2.40 A third risk is the weakness of local officials serving on the sector-based committees and other project actions involving local governments (component 3). This could cause some of the project's activities to be delayed or to fail to achieve the expected outcomes. OCDIH has ample experience working with municipal governments and will therefore be able to see signs of this problem early on and work with municipal corporations to identify effective counterparts therein.

M. Exceptions to Bank policies

- 2.41 Since the amount of the project's technical cooperation operation exceeds the limit established in document GP-75-9 for individual technical-cooperation operations financed under the Social Entrepreneurship Program, this document has been submitted for consideration by the Bank's Board of Executive Directors.

LOGICAL FRAMEWORK FOR THE PROJECT HO-S-1018 COMMUNITY DEVELOPMENT, RURAL BUSINESS, AND FOOD SECURITY IN COPÁN			
OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL			
To contribute to improving the socioeconomic condition of small-scale farming families in six municipios in the department of Copán.	<p>3 years after project completion:</p> <p>5,150 indirect beneficiaries have improved their living conditions because the income of 380 families has increased 40% over the baseline.</p>	<ul style="list-style-type: none"> - Human Development Index published by the United Nations. - Statistics published by the National Institute of Statistics. - Impact evaluation report two years later. - Baseline. 	<ul style="list-style-type: none"> • At a minimum, national political, economic, and legal conditions favoring project implementation remain stable.
PURPOSE			
To promote a comprehensive, replicable rural development model that includes: food security, environmental sustainability, business alliance-building, citizen participation, and access to financing.	<p>At the end of the second year of the project, and with respect to the baseline:</p> <ol style="list-style-type: none"> 1. Measurable improvement in food security and environmental sustainability indicators in the project area. 2. Presence of at least two business networks operating in the area. <p>Upon project completion and with respect to the baseline:</p> <ol style="list-style-type: none"> 3. 40% increase in income from sales of surplus production under the rural development model implemented and the business networks built as economic development alternatives for the territory. 4. Increase in investments and actions by local governments to support productive activities. 5. Increase in the credit portfolio of the rural savings and loan associations and improvement in performance indicators for productive activities in the six municipios. 	<ul style="list-style-type: none"> - Midterm and final project evaluation. - Institutional memory of the executing and co-executing agencies. - Municipal government reports. - Monitoring and evaluation systems of the executing and co-executing agencies. - Reports on volumes of sales. - Baseline. 	<ul style="list-style-type: none"> • Public-private partnerships materialize in the six municipios in the department of Copán.

TECHNICAL COOPERATION SUBCOMPONENTS:			
Subcomponent I. Agroecological management for sustainable production: food security and local markets			
The objective of this component is to strengthen the production capacities of small-scale farmers to guarantee food security and facilitate the generation of economic income with crops suitable for the local market.	36 months into the project: 380 small-scale farming families have ensured their nutritional requirements, by producing 5,500 quintals (247.5 tons) of basic grains and building backyard economies (comprehensive family gardens and access to local markets).	<ul style="list-style-type: none"> - Semiannual PSR - Logs signed by beneficiaries and technical staff at each comprehensive farm. - Supervision reports submitted by the executing and co-executing agencies. - Program execution plan (PEP). - Annual work plan (AWP). 	Farmers respond to the work methodology, which has a focus on ethics and is culturally sensitive in terms of gender and diversity. A culture of minimal payment for technical assistance received is generated among farmers.
Subcomponent II. Promotion of business alliance-building for production and market access			
The objective of this component is to increase the levels of agricultural production and access to markets by organizing small-scale producers in business networks based on the territory's capability and common interests of the residents.	<p>24 months into the project: two business networks are formed and consolidated with 30 participating families, and they have studies on the territory's capabilities, market studies, training processes, and operational structure.</p> <p>36 months into the project: the two networks gain market access, having signed at least two sales contracts, and are operating above the break-even point.</p> <p>36 months into the project: the two business networks post a 10% profit on sales of agricultural products.</p>	<ul style="list-style-type: none"> - Semiannual PSR - Quarterly report submitted by Business Development Systems technical staff. - Joint beneficiary-client work logs. - Sales contracts signed by both networks. - Monitoring reports by the executing and co-executing agencies. - Institutional memory. - AWP - PEP 	Alliance-building processes are consolidated thanks to the level of entrepreneurship of the groups operating on local markets.
Subcomponent III. Local economic development and consolidation of active citizen participation			
This subcomponent aims to build citizens' capacities so they can play an active role in local government in order to promote productive development initiatives in six municipios in Copán.	<p>Upon project completion:</p> <p>(i) At least two signed agreements between local governments and the private sector to stimulate opportunities for rural business, after forming the sector-based committee.</p> <p>(ii) At least three of the six municipios show budget allocations for investments in basic services that stimulate the growth of rural business.</p> <p>(iii) At least 50% of the families participating in the project know their rights and obligations as citizens.</p>	<ul style="list-style-type: none"> - PSR - Cooperative reports - CACR reports - AWP - PEP 	<p>There are no political or military events that negatively affect the processes of citizen engagement.</p> <p>The leadership developed in the community over the course of the project is maintained, given the risk of migration to cities or other countries.</p>

Subcomponent IV. Rural financial services			
The objective of this subcomponent is to strengthen local financial intermediation structures by supporting the area's rural savings and loan associations and the savings and loan cooperative, which encompasses about 17 associations.	Upon project completion: The savings and loan cooperative, with 17 rural savings and loan association affiliates (340 families), is established and strengthened by designing and applying a CACR qualification methodology, and operating policies and by-laws.	<ul style="list-style-type: none"> - Portfolio report - PSR - Cooperative reports - CACR reports - Savings and loan by-laws - AWP - PEP 	The rural savings and loan associations respond positively, achieving adequate performance indicators within a framework of good financial practices.
ACTIVITIES			
Subcomponent I. Agroecological management for sustainable production: food security and market access			
1.1 Production of basic grains for food security and strengthening of 10 basic grain reserves	1.1.a. Upon project completion at least 220 small-scale farming families have a secure source of food, cultivating 220 <i>manzanas</i> ¹ of basic grains, namely corn and beans (5,500 quintals of production). 1.1.b. At least 220 families have incorporated sustainable production elements, agroecological techniques, separation of plants, varieties of species, and soil conservation with vegetated buffers. 1.1.c. At least 10 strengthened community grain reserves for food security are operating in six municipios in Copán, with project support.		Resources from the local counterpart contribution are provided to carry out activities.
1.2 Establishment of comprehensive family gardens	1.2 At least 30 small-scale farming families are managing demonstration farms with a variety of vegetables, ecotechnologies, and smaller species.		
1.3 Training of top producers as leaders	1.3 Thirty leaders who are top producers are trained in facilitation and agricultural techniques.		
1.4 Replication of training workshops by campesinos who do agricultural outreach	1.4 Training in agricultural techniques is provided to 225 producers.		

¹ 1 hectare = 1.4 *manzanas*. 1 quintal = 45 Kg.

1.5 Establishment of tree nurseries	1.5 Irrigation water zones are protected by planting 10,000 trees (two nurseries in Florida and Nueva Arcadia).		
1.6 Development of field schools.			
Subcomponent II – Promotion of business alliance-building for production and market access			
2.1 Identification, organization, implementation, and strengthening of at least two networks: beans and green beans.	2.1.a By year three of the project: Two fully operational business networks that are breaking even in financial operations. 2.1.b. By year three of project execution, the two business networks post a 10% profit, signing at least two local sales contracts.		
2.2 Implementation of 10 workshops on alliance-building and 5 workshops on handling quality standards (HACCP-GMP).	2.2 30 months into the project: At least 30 farmers are trained in basic alliance-building skills, motivational techniques, quality techniques, and market access techniques.		
2.3 Possible specialized consulting services according to the business networks' needs (bean processing).	2.3 36 months into the project the two business networks have received and are implementing specialized techniques in production, processing, etc.		
2.4 Procurement of seeds, installation of irrigation infrastructure and greenhouses for seedling production, bean processing equipment for two networks.	2.4 36 months into the project the two business networks have developed their productive infrastructure and are in the process of phased production.		
2.5 Registration of common trademarks or patents, health registration, commercial registration for the two networks.	2.5 At 24 months, the two business networks are operating with legal status, trademarks, and patents.		
2.6 Design of image, labels, packaging, promotion, and open markets for the two networks.	2.6 After month 30, the two business networks gain market access promoting products, with technical assistance for image and labels.		

Subcomponent III. Local economic development and consolidation of active citizen participation			
3.1	Facilitate the public-private dialogue process in the case of two leagues of municipios: Copán-Santa Bárbara and Cerro Azul.	3.1	At 24 months, two leagues of municipios establish coordination agreements with the private sector to execute projects in the municipios.
3.2	Review, validation, and implementation of two territorial strategic plans.	3.2	Beginning in month 18, the two leagues of municipios have updated strategic plans based on their organizational duties and the needs of the population.
3.3	At least one sector-based committee formed, which leads to business opportunities related to the items that have been most developed.	3.3	At 30 months, there is a sector-based committee with representation from the different social sectors, presenting clear proposals to the authorities to support rural initiatives.
3.4	At least one public-private partnership agreement to stimulate rural business (infrastructure to facilitate sales, food security).	3.4	At 36 months, community-based productive business projects are executed to generate income for low-income families.
3.5	Eight workshops to train social oversight agents (45 beneficiaries at the community level).		At 36 months, 45 community social oversight agents will be monitoring public spending in their communities.
3.6	Support in executing two social audit exercises led by the citizen transparency commissions.		At 18 months, two transparency commissions will audit public spending and take action based on the results obtained.
			The families benefitting from the project actively participate in the citizen engagement processes.

Subcomponent IV – Rural financial services			
4.3 Institutional strengthening of the new cooperative.	4.3 18 months into the project: The new savings and loan cooperative is operating with policies and by-laws consistent with good financial practices.		The rural savings and loan associations are strengthened and achieve suitable ratings according to the newly designed methodology.

Itemized Project Budget
HO-S1018 Community Development, Rural Business, and Food Security in Copán

Description of the Activity	Total Cost	Nonreimbursable Financing	TC	TC	TC
			IDB	LOCAL	TOTAL
C 1. Agroecological management of sustainable production: food security and market access	122,690	54,320	55,920	12,450	68,370
Technical assistance for the production of 220 <i>manzanas</i> of basic grains and the strengthening of 10 grain reserves	33,230	26,450	5,820	960	6,780
Establishment of new comprehensive farms (vegetables, animal husbandry, ecotechnologies)	30,560	22,100	5,820	2,640	8,460
Establishment of soil conservation works (vegetated buffers, erosion prevention, and food security)	10,420	3,200	5,820	1,400	7,220
Training of top producers as leaders	13,020	0	11,220	1,800	13,020
Replication of training workshops by campesinos doing agricultural outreach	1,800	0	1,800	0	1,800
Establishment of tree nurseries	6,520	700	5,820	0	5,820
Development of field schools	27,140	1,870	19,620	5,650	25,270
C 2. Promotion of business alliance-building for production and market access	132,180	26,150	71,480	34,550	106,030
Workshops on alliance-building	20,840	0	14,440	6,400	20,840
Identification, organization, and establishment of at least two business networks	28,500	0	24,100	4,400	28,500
Workshops on quality standards	16,890	0	13,640	3,250	16,890
Implementation and strengthening of the business networks	65,950	26,150	19,300	20,500	39,800
C 3. Local economic development and consolidation of active citizen participation	77,710	0	69,560	8,150	77,710
Public-private dialogue process facilitation in the case of two associations (Copán-Santa Bárbara, Cerro San Antonio)	13,700	0	11,360	2,340	13,700
Review, updating, and validation of two territorial strategic plans	14,780	0	14,360	420	14,780
Strengthening of two citizen participation committees (food security, environment, etc.)	10,060	0	9,760	300	10,060
Eight workshops to train social oversight agents at the community level	15,290	0	14,200	1,090	15,290
Support in executing two social audits led by the citizen transparency commissions	23,880	0	19,880	4,000	23,880
C 4: Rural financial services	10,825	3,825	5,000	2,000	7,000
Institutional and financial strengthening of the cooperative	10,825	3,825	5,000	2,000	7,000
Coordination, evaluation, and monitoring	157,900	0	88,745	65,155	153,900
Project Director	6,120		0	6,120	6,120
General Administrator	3,240		0	3,240	3,240
Planning	3,600		0	3,600	3,600
Accountant	24,840		21,175	2,665	23,840
Technical Coordinator	51,880		46,215	2,665	48,880
Baseline and project evaluations	8,000	0	8,000	0	8,000
Financial auditing	10,000	0	10,000	0	10,000
Totals	501,305	84,295	290,705	122,305	413,010

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/10

Honduras. Nonreimbursable Financing SP/SF-___-HO and Nonreimbursable Technical Cooperation ATN/SF-___-HO. Community development, rural business, and food security in Copán.

The Board of Executive Directors

RESOLVES:

1. 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 agreements as may be necessary with the *Asociación Civil Organismo Cristiano de Desarrollo Integral de Honduras*, to execute and administer the transaction referred to in document PR-_____ subject to the terms and conditions indicated therein, to be financed with the net income of the Special Operations Fund under the Social Entrepreneurship Program approved by Resolution DE-183/98, in order to:

- (a) grant a nonreimbursable technical cooperation to promote a rural development model that includes food safety, environmental sustainability, and access to financing, among others;
- (b) grant nonreimbursable financing to fund the basic infrastructure investments and necessary supplies for the technical cooperation described in paragraph 1(a);

2. That an amount of up to US\$290,705 is authorized on a nonreimbursable basis for the purpose set forth in paragraph 1(a);

3. That an amount of up to US\$84,295 is authorized on a nonreimbursable basis for the purpose set forth in paragraph 1(b).

(Adopted on _____ 2010)

[HO-S1018]