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Enabling poor rural people
to overcome poverty

Republic of Honduras

President's memorandum

Project for Enhancing the Rural Economic Competitiveness of Yoro

Amendment to loan agreement

Note to Executive Board representatives

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Executive Board — 105th Session
Rome, 3-4 April 2012

For: Approval

Recommendation for approval

The Executive Board is invited to approve the request to amend the loan agreement for the Project for Enhancing the Rural Economic Competitiveness of Yoro as contained in paragraph 9.

President's memorandum

Project for Enhancing the Rural Economic Competitiveness of Yoro

Request for amendment to the Loan Agreement

I. Background

1. At its ninety-second session in December 2007, the Executive Board approved a loan of SDR 4.55 million (equivalent to approximately US\$7.13 million) to the Republic of Honduras, on highly concessional terms, to help finance the Project for Enhancing the Rural Economic Competitiveness of Yoro. This amount was within the performance-based allocation system (PBAS) allocation for Honduras for 2007-2009. Cofinancing of the US\$13.88 million project consisted at the time of a loan of from the Central American Bank for Economic Integration (CABEI), and contributions of US\$1.05 million from the Government and US\$1.69 million from beneficiaries. The loan agreement was signed on March 2008 and entered into effect on 17 November 2008.
2. **Key project objectives.** The project's development objective is to significantly reduce rural poverty in the department of Yoro. Its purpose is to improve the organizational capacities and territorial management practices of the rural poor, including indigenous groups, and to achieve a better market position for their products. The project is expected to strengthen rural organizations, achieve sustainable territorial management and ensure that smallholder farmers are better served by technical assistance providers and financial institutions. The project as originally designed would have benefited directly 9,000 smallholder producers (45,000 rural inhabitants), including 2,000 indigenous households.
3. **Supplementary financing.** A supplementary loan of SDR 1.43 million (equivalent to approximately US\$2.27 million) was approved at the ninety-fourth session of IFAD's Executive Board (September 2008). The supplementary loan was to enable the project to help 1,700 additional smallholders improve grain, milk and vegetable production and marketing, and thus contribute to the increased availability of food in national and Central American markets. The project objectives, components and strategy remained as described in the project design report and the loan agreement.
4. **Total project costs and financing.** With these additional resources, together with increased funds from the Government and beneficiaries, the total project cost rose from approximately US\$13.88 million to US\$16.7 million. Consequently, financing was revised as follows: (i) the IFAD loan increased from SDR 4.55 million to SDR 5.98 million (or from about US\$7.13 million to US\$9.4 million, equivalent); (ii) the Government's contribution increased from US\$1.05 million to US\$1.18 million; and (iii) the beneficiaries' contribution increased from US\$1.69 million to US\$2.16 million. The CABEI loan remained the same (US\$4.0 million).

II. Amendment to loan agreement

5. The Government of Honduras requested the United Nations Development Programme (UNDP) to support loan administration and to assist in the procurement of goods, services and works for IFAD's projects 816-HN and 839-HN. This modality of support was included in the respective financing agreements between IFAD and the Republic of Honduras, which were approved by the Board.
6. Based on the results achieved during project implementation and in view of the benefits of harmonizing all procurement procedures among IFAD's projects, the Republic of Honduras has requested IFAD to amend the loan agreement for the Project for Enhancing the Rural Economic Competitiveness of Yoro and include UNDP in project implementation, following the same type of arrangement.
7. Under IFAD's direct supervision, the procurement of goods, works and services would have been carried out in accordance with IFAD's Procurement Guidelines. The use of UNDP procurement rules and procedures would constitute an exception to these guidelines. The approval of the Board is therefore requested. The necessary changes will be reflected in an amendment letter.

III. Justification

8. The harmonization of procurement procedures among IFAD's projects in Honduras will simplify the procurement of goods, services and works, while facilitating IFAD's direct supervision and implementation follow-up.

IV. Recommendation

9. I recommend that the Executive Board approve the proposed amendment in terms of the following resolution:

RESOLVED: that the Fund shall approve an amendment to loan agreement for the Project for Enhancing the Rural Economic Competitiveness of Yoro, upon the terms and conditions presented herein.

Kanayo F. Nwanze
President