



**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board – Sixty-Fifth Session**  
Rome, 2-3 December 1998

**REPORT AND RECOMMENDATION OF THE PRESIDENT**

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO

**THE REPUBLIC OF HONDURAS**

FOR

**THE RURAL DEVELOPMENT PROJECT IN THE SOUTH-WESTERN REGION  
(PROSOC)**





## TABLE OF CONTENTS

	<b>Page</b>
<b>CURRENCY EQUIVALENTS</b>	<b>iii</b>
<b>WEIGHTS AND MEASURES</b>	<b>iii</b>
<b>ABBREVIATIONS AND ACRONYMS</b>	<b>iii</b>
<b>MAP OF THE PROJECT AREA</b>	<b>iv</b>
<b>LOAN SUMMARY</b>	<b>v</b>
<b>PROJECT BRIEF</b>	<b>vi</b>
<b>PART I THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY</b>	<b>1</b>
A. The Economy and Agricultural Sector	1
B. Lessons Learned from Previous IFAD Experience	2
C. IFAD's Strategy for Collaboration with Honduras	2
<b>PART II THE PROJECT</b>	<b>3</b>
A. Project Area and Target Group	3
B. Objectives and Scope	4
C. Components	4
D. Costs and Financing	7
E. Procurement, Disbursement, Accounts and Audit	10
F. Organization and Management	10
G. Economic Justification	12
H. Risks	13
I. Environmental Impact	13
J. Innovative Features	13
<b>PART III LEGAL INSTRUMENTS AND AUTHORITY</b>	<b>14</b>
<b>PART IV RECOMMENDATION</b>	<b>14</b>
<b>ANNEX</b>	
<b>SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES     INCLUDED IN THE NEGOTIATED LOAN AGREEMENT</b>	<b>15</b>



**APPENDIXES**

	<b>Page</b>
<b>I. COUNTRY DATA</b>	<b>1</b>
<b>II. PREVIOUS IFAD LOANS TO HONDURAS</b>	<b>2</b>
<b>III. MARCO LÓGICO (LOGICAL FRAMEWORK)</b>	<b>3</b>
<b>IV. OBJETIVOS, COMPONENTES, ACTIVIDADES Y PARÁMETROS PRODUCTIVOS Y FINANCIEROS (OBJECTIVES, COMPONENTS, ACTIVITIES AND PRODUCTION AND FINANCIAL PARAMETERS)</b>	<b>8</b>
<b>V. ORGANIZACIÓN Y ADMINISTRACIÓN (ORGANIZATION AND MANAGEMENT)</b>	<b>9</b>
<b>VI. ANÁLISIS FINANCIERO Y ECONÓMICO (FINANCIAL AND ECONOMIC ANALYSIS)</b>	<b>10</b>



### CURRENCY EQUIVALENTS

Currency Unit	=	Lempira (HNL)
USD 1.00	=	HNL 13.3
HNL 1.00	=	USD 0.075

### WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m <sup>2</sup> )	=	10.76 square feet (ft <sup>2</sup> )
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

### ABBREVIATIONS AND ACRONYMS

CAP	Comité de Aprobación de Proyectos (Project Approval Committee)
CODECO	Consejo de Desarrollo Comunitario (Community Development Council)
CODEM	Consejo de Desarrollo Municipal (Municipal Development Council)
EDR	Empresa de desarrollo rural (Rural development organization)
FIR	Fondo de inversión rural (Rural investment fund)
IFL	Intermediaria financiera local (Local financial intermediary)
ImFI	Institución financiera intermediaria (Intermediary financial institution)
PBOD	Project Board of Directors
PEU	Project Executing Unit
PLANDERO	Agricultural Development Programme for the Western Region
PROAGRO	Plan Agrícola para el Desarrollo del Campo (Plan for the Development of Rural Areas)
PRODERCO	Rural Development Project in the Central Eastern Region
SAG	Secretaría de Agricultura y Ganadería (Secretariat of Agriculture and Livestock)
SECPLAN	Planning and Budget Secretariat

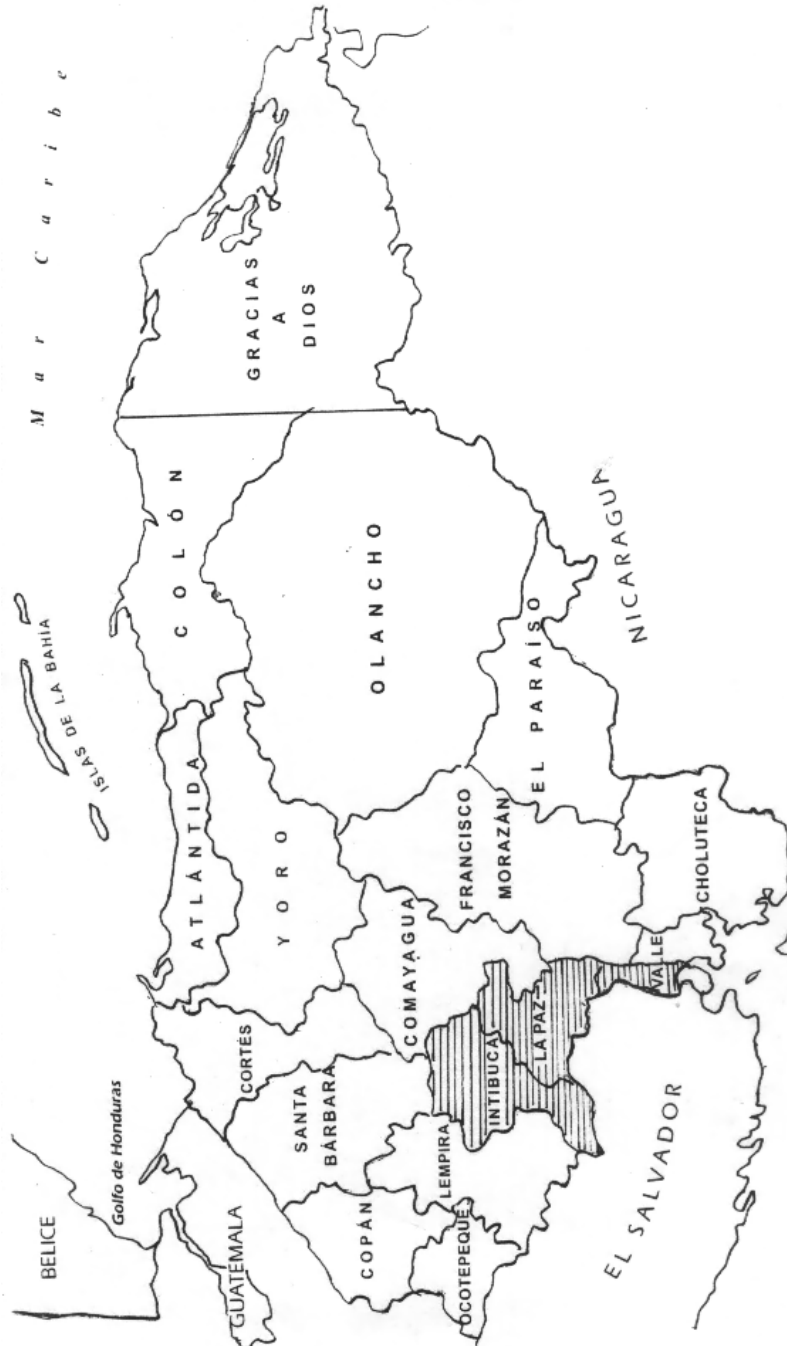
### GOVERNMENT OF THE REPUBLIC OF HONDURAS

#### Fiscal Year

1 January - 31 December



## MAP OF THE PROJECT AREA RURAL DEVELOPMENT PROJECT IN THE SOUTH-WESTERN REGION (PROSOC)



**Source:** Appraisal Mission

*The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.*



**REPUBLIC OF HONDURAS**

**RURAL DEVELOPMENT PROJECT IN THE SOUTH-WESTERN REGION  
(PROSOC)**

**LOAN SUMMARY**

<b>INITIATING INSTITUTION:</b>	IFAD
<b>BORROWER:</b>	Republic of Honduras
<b>EXECUTING AGENCY:</b>	Ministry of Agriculture and Livestock
<b>TOTAL PROJECT COST:</b>	USD 22.50 million
<b>AMOUNT OF IFAD LOAN:</b>	SDR 13.75 million (equivalent to approximately USD 19.30 million)
<b>TERMS OF IFAD LOAN:</b>	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
<b>COFINANCIERS:</b>	None
<b>CONTRIBUTION OF BORROWER:</b>	USD 2.40 million
<b>CONTRIBUTION OF BENEFICIARIES:</b>	USD 0.80 million
<b>APPRAISING INSTITUTION:</b>	IFAD
<b>COOPERATING INSTITUTION:</b>	Andean Development Corporation (CAF)



## **PROJECT BRIEF**

### **Who are the beneficiaries?**

The rural population in the project area is predominantly indigenous Lenca. The target group consists of 40 000 families – around 276 000 people – with incomes below the poverty line, while the beneficiaries are expected to include 11 500 families. The project area covers 38 municipalities in the departments of La Paz, Intibucá and Valle, comprising an area of 600 000 ha. The area includes two of the three poorest departments in the country. With the implementation of this project, the IFAD portfolio will include Honduras' six poorest departments.

### **Why are they poor?**

The target population survives through subsistence production of basic grains, the sale of minor surpluses and wage earnings from coffee harvesting. The region is characterized by low productive potential and high risk of harvest losses due to a prolonged dry season and uncertain rainfall. Population pressures and inadequate practices have led to overexploitation of natural resources and forest degradation. Hillside cropping, intensive cattle grazing and overextraction of forestry resources all contribute to deteriorating productive capacity and progressive impoverishment of the rural population. Household food insecurity has been spreading in the project area as a consequence of natural restrictions and environmental deterioration.

### **What will the project do for them?**

The project is expected to improve household food security and family incomes, improve or preserve natural resources and increase access to income opportunities for women, youth, indigenous people, the landless and other disadvantaged groups. By means of a baseline study, the project will define a typology of the different situations of poverty and disadvantage within the target population. A process of participatory needs assessment will follow in the targeted communities to produce proposals for local microprojects that will be implemented with project financial and technical support. In order to implement these community microprojects, the project will operate a rural development fund (FIR) to finance small public infrastructure and rural development services, such as technical, commercial and environmental assistance, on a non-reimbursable basis. Beneficiaries will participate in the approval of FIR commitments to microproject financing. To support individual initiatives, the project will implement a financial services component consisting of a credit fund and activities to support the managerial capacity of local informal financial institutions. The project will implement a strong training programme directed to the target group, the project managers and the contractors of technical services. The project has the purpose of enhancing the capacity of local private professionals – contracted under FIR technical assistance grants – to deliver technical and rural development services to the target population.

### **How will beneficiaries participate in the project?**

The project will be almost entirely demand driven. Communities, organizations and affinity groups will have the opportunity to design their own proposals, which will be supported by project financing. In addition, beneficiaries will be represented in the project Board of Directors and the FIR Approval Committee, which are the most important project decision-making bodies.





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TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO  
THE REPUBLIC OF HONDURAS  
FOR  
THE RURAL DEVELOPMENT PROJECT IN THE SOUTH-WESTERN REGION  
(PROSOC)**

I submit the following Report and Recommendation on a proposed loan to the Republic of Honduras for SDR 13.75 million (equivalent to approximately USD 19.30 million) on highly concessional terms to help finance the Rural Development Project in the South-Western Region (PROSOC). The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the Andean Development Corporation (CAF) as IFAD's cooperating institution.

**PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY<sup>1</sup>**

**A. The Economy and Agricultural Sector**

1. The Republic of Honduras is located in Central America and is bordered by Nicaragua to the east, El Salvador to the south, and Guatemala to the west. It has both an Atlantic and a Pacific coast, with a territory of 112 492 km<sup>2</sup>. The total population is estimated at 5.9 million, of which approximately 53% are rural.

2. A programme of sweeping economic reform and structural adjustment was initiated in the early 1990s; it aimed to balance both the external current account and the public finances. During the past three years, the gross domestic product (GDP) has averaged a 4% growth. Inflation, which was at 29% in 1995, fell to 25% in 1996, and was further reduced to 13% in 1997. The process of adjustment had major deleterious effects on the lower and middle classes. There has been a sharp reduction in public-sector employment, which has had a recessive impact on the economy. In the rural sector, the adjustments in public expenditures have led to a strong reduction in services to small producers.

3. Rural poverty is among the worst in Latin America; 87% of the rural population is not able to satisfy basic needs. In 1990, small farmers' average family income was around USD 540 per year. The Planning and Budget Secretariat (SECPLAN) estimates that 70% of the total population and 74% of the rural population live below the poverty line. Women head about 20% of rural households. Two thirds of the households headed by women are below the poverty line.

4. Honduras is primarily an agricultural economy, with the agricultural sector contributing approximately 28% to GDP, and over 70% to export earnings. Bananas and coffee represent about 39% of the agricultural GDP and over half of export earnings. Coffee production is largely in the hands of small farmers, while banana production and export is primarily under the control of large multinational corporations. Over the past several years, Honduras has considerably increased its exports of such non-traditional products as fruit, vegetable crops and shrimp. Basic grains (maize,

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<sup>1</sup> See Appendix I for additional information.



beans and rice) are produced for domestic consumption and represent 22% of agricultural GDP. Livestock production generates 13% of agricultural GDP and forestry about 10%. This represents only a fraction of the real potential of forestry resources, whose rational exploitation could generate considerable employment and income for the rural population.

5. The Modernization Law and the Plan for the Development of Rural Areas (PROAGRO) 1995-1998 contain the guiding principles of government agrarian policies. These policies are oriented towards a redefinition of the role of public and private sectors, increased privatization of rural services and an accompanying retrenchment of the Government in the areas of research, credit, technical assistance and marketing. Policies regarding land tenancy are oriented towards establishing mechanisms to guarantee norms of property ownership and universalize land titling for agricultural plots.

### **B. Lessons Learned from Previous IFAD Experience**

6. **Operations.** IFAD has extended five loans to Honduras totalling SDR 37.6 million, three of which were on highly concessional terms, and two on intermediate terms. The last project approved for Honduras was the Rural Development Project in the Central Eastern Region (PRODERCO), approved by the Executive Board in April 1997, on highly concessional terms. The project has been under implementation since February 1998.

7. **Lessons learned.** Portfolio evaluation of the IFAD-financed projects in Honduras was carried out in 1996. Highlights of the recommendations include: (i) placing more emphasis on promotion and strengthening of project users' organizations; (ii) stressing project support to the rural landless and to non-agricultural rural activities; (iii) tapping the experience of regional institutions such as the Tropical Agricultural Research and Training Centre (CATIE) or the Nutrition Institute of Central America and Panama (INCAP) in agricultural technology; (iv) making credit independent of technical assistance. The emphasis should be on promoting access to credit for women's groups, the landless and rural non-agricultural activities; (v) employing a more integrated approach towards women's roles, their participation in production, and an accurate estimate of their available time; (vi) giving special attention to organizations of indigenous populations, and to assessing the impact of project activities on their culture and traditions; (vii) stressing beneficiary participation in monitoring and evaluation and clarifying monitoring indicators expressed in the baseline study; and (viii) extending the project implementation period, since five years is generally too short a period to reach project objectives.

8. The Formulation Mission added the following recommendations and strategic grounds for project design: (i) project activities should be designed to target the poorest and most marginalized families and communities; (ii) activities should be responsive to the demands of communities and organized users groups; (iii) there should be a flexible mechanism for financing communal public infrastructure – especially irrigation and roads – to ease access to new production opportunities; (iv) demand for credit should not be forced. Financial support should be treated as an important service for the family budget, including food, emergency assistance, and productive investments; and (v) project design should incorporate a strong component enhancing the technical, commercial and social competence of the professionals engaged by grass-roots organizations. They should be specially trained in household food security and environmentally sustainable technologies.

### **C. IFAD's Strategy for Collaboration with Honduras**

9. **IFAD strategy.** The strategy in Honduras addresses rural poverty through an approach based on: (i) supporting current institutional reform and privatization of many support services; (ii) ensuring broad-based beneficiary participation in decision-making; (iii) promoting the strengthening of rural organizations so as to assure the meaningful participation of the rural poor in the design and implementation of projects; (iv) facilitating access to credit, land titling, food security



and favourable conditions for rural non-agricultural activities including agro-industry; (v) supporting natural resource conservation and recovery, particularly for hillside farming; (vi) promoting the participation of women in the productive decision-making process through the training of project professionals and community organization leaders in gender issues, as well as by the formulation of projects that include a gender perspective; and (vii) supporting the strategy of privatization of services and capacity-building among NGOs and local professionals to improve their participation.

10. **Project rationale.** This six-year project will contribute to alleviating chronic poverty and consolidating government priorities in a region that encompasses two of the three poorest departments in the country. Inter-agency collaboration in the project area will prevent duplication of activities. Constraints to development include: severe depletion and degradation of natural resources; economic and social exclusion of poor communities; social and economic inequities in communities; and gender inequities.

## **PART II – THE PROJECT**

### **A. Project Area and Target Group**

11. The project area is located in the south-west of Honduras, and borders the Agricultural Development Programme for the Western Region (PLANDERO) area and El Salvador. It consists of 38 municipalities belonging to three departments and covers 600 000 ha. With the implementation of this project, the IFAD portfolio will include the six poorest departments of the nineteen existing in Honduras.

12. The area is predominantly mountainous and consists of three basic ecosystems: valleys, hillsides, and mountains. The predominant vegetation system is mountain pine forests and pine/oak forests, with some rain forests in the middle and north-western parts of the region. Annual rainfall varies from a minimum of 500 mm to a maximum of 2 000. The combination of altitude and rainfall defines two major climatic zones. The main portion of the region is characterized by hilly lands with altitudes ranging from 500 to 800 m and rainfall below 800 mm. Near the cities of La Esperanza, La Paz and Marcala, altitudes and rainfall are higher, leading to better conditions for production.

13. A combination of deforestation and forest fires in the project area has caused considerable soil erosion on the hillsides. Deforestation of the upper watersheds due largely to agricultural migration has increasingly affected the hydrological cycle. These changes have resulted in greater surface runoff, which increases erosion, reducing the aquifer mantle and increasing the incidence of droughts. Inappropriate use of pesticides has also had an adverse environmental impact in the area. Use of chemicals has increased among small producers.

14. Most of the cultivated land area is dedicated to maize and bean production. Rice is cultivated on a commercial basis, while sorghum substitutes maize in some of the poorest soils of the dry areas. Annual crops cover 84 000 ha or 27% of the total area. The most important perennial crop is coffee, which is produced on 19 000 ha. Other important perennial crops include bananas and oranges, although they cover only 2 000 ha.

15. Cattle-raising is not widespread among the target population and consists primarily of collectively owned small herds of 20-50 head of cattle for milk and meat. There are a total of 37 000 head of cattle in the entire project area, mainly for family consumption. As an integral part of the peasant family farm, pigs are of relative importance, and are raised exclusively for family consumption, with little technological innovation. There are 35 000 pigs in the area.



16. Most of the existing forests in the project area are coniferous. Although the forest resources are badly depleted, there are small virgin forest areas that remain due to their inaccessibility. Lumber extraction is the main productive activity of the area. The peasant families also cut trees for firewood and resin production, an activity carried out by some small cooperatives. Despite the existence of laws governing the rational forest management, there are almost no instruments for forest protection and enforcement of regulations, and illegal cutting and transport of lumber is a problem.

17. There are four basic types of land ownership in the area: private, national, municipal and *ejidal*, in which communities have rights of use, but cannot sell. As the result of a land titling process that targeted the area, most of the land in Intibucá and La Paz is held with legal titles. Land titles constitute the principal source of collateral for credit. In accordance with the Municipal Development Law passed in 1990, forests are now owned by the municipalities, which have responsibility for their use and protection.

18. The region has a limited network of roads that are difficult to maintain. Secondary roads that lead to important coffee-producing areas are maintained with support from the Honduran Association of Coffee Producers (AHPROCAFE). Road work is coordinated with the municipalities and communities, which contribute resources.

19. **Target group.** The project area has a rural population of some 250 000 persons; an estimated 80% have incomes below the poverty line and live in conditions of extreme poverty. Men are mainly dedicated to income-generating activities, while women, in addition to childbearing, support their partners in productive activities. Their survival is derived primarily from subsistence production of basic grains, sale of some surplus production, and hiring out as wage workers, mainly in coffee harvesting. The population is mainly of the Lenca ethnic group.

20. The region is characterized by low productive potential and high risk of harvest losses due to a prolonged dry season and uncertain rainfall, which has led to food insecurity. The pressures on resources due to over-extraction of forestry resources, cattle grazing, and the increasing intensity of crop production all contribute further to the deteriorating productive capacity. These factors explain the continuing impoverishment of the population, which is located in an area of environmental fragility and subject to increasing population pressures.

## B. Objectives and Scope

21. **Project objectives.** The project is intended to: (i) increase food security through improved production, local storage of basic foods, access to financial resources and markets; (ii) increase family income through diversification of agricultural and non-agricultural production, and access to technology, markets and training; (iii) recover and preserve natural resources, particularly in areas of hillside farming; (iv) reduce existing social inequities within poor communities and within families, by improving access to opportunities, particularly for indigenous people, women and youth; and (v) strengthen the capacity of the private and public sector to provide communities with social and productive services.



## C. Components

22. The project has three components: (i) community development; (ii) investments and services, and (iii) community financial services.

### Community Development

23. The objectives of the component are to strengthen the technical, organizational and managerial capacity of the different project stakeholders in order to improve the functioning of a local agricultural services market. It will be implemented through four sub-components: promotion and organization, training, communication and gender.

24. **Promotion and organization.** The first objective of the sub-component is to target project interventions, prioritizing the poorest communities, in which the project will deliver support services and financing to the different disadvantaged groups. A baseline study will define the typology of the different poor and marginal groups in order to improve the accuracy of the targeting process. The second objective is to initiate a process of needs assessment and planning with the targeted backward organizations in order to formulate microproject proposals. The needs assessment will be carried out by a private rural development organization (EDR), which will prepare a community development plan. During the needs assessment/planning stage, the EDR will promote the formation of sub-groups in the communities on the basis of areas of interest. These affinity groups represent the typology of situations of poverty and backwardness. Thus they might include groups of agricultural producers, microentrepreneurs, landless, women, youth, etc. The groups will prepare plans and proposals for technical assistance, training or infrastructure investments to submit for non-reimbursable financing to the rural investment fund (FIR), described below, or for credit to an intermediary financial institution (ImFI).

25. **Training.** The objective of the sub-component is to develop and strengthen project participants' knowledge and entrepreneurial management skills and abilities to permit them to improve their performance. Training will be provided to the Project Board of Directors (PBOD), the Project Executing Unit (PEU), the Project Approval Committee (CAP), EDRs, producers (innovative and grass-roots), producers' organizations, peasant correspondents and leaders of municipal organizations. The cycle and duration of training will vary according to the type of trainee. Training for producers will be short, and the methods will be mostly demonstrations and tours. For technical staff, the methodology will be a mix of practice and theory. In some cases, the project will offer training activities, in other cases, organizations, EDRs, municipalities and other entities can present requests for training to which the project will respond.

26. **Communication.** The main objective of the sub-component is to inform people about the project, its activities and the opportunities it offers. The Communication Unit will also have the responsibility of public relations, press relations and publishing of project materials.

27. **Gender.** The objective of the sub-component is to assure that all activities implemented directly or contracted by the project maintain a focus on gender. That is, they should focus on the family as a whole, assuring that men and women have equitable access to project opportunities to improve the quality of life. The major activities will include: strengthening the participative process with gender equity in project activities; facilitate the active participation of both men and women in organizations, administration and decision-making in communities and groups; strengthen the capacity of PEU and EDR personnel to provide services that are sensitive to gender issues, and their effectiveness in changing attitudes and stereotypes; and integrate the project's conceptual, methodological, and operational base and capacity to offer services with a gender perspective.



## Investments and Services

28. The main objective of the component is to establish a mechanism to assure access of the organizations of the target population to technical services and community infrastructure investments. For that purpose, the project will constitute a *rural investment fund* and a municipal infrastructure rehabilitation fund (FOR) in order to allow communities, municipalities and organizations to finance contracting of services and building of productive infrastructure in accordance with their needs expressed through the needs assessment process. At the same time, the project will reinforce the supply side of rural development services by strengthening the EDRs that provide technical and commercial assistance, assisting them in improving their capabilities and lowering their costs.

29. The **rural investment fund (FIR)** will be created to provide cofinancing under grant conditions to eligible organizations in order to finance investments and technical services in accordance with strict eligibility criteria for users and projects. Criteria for fund eligibility and management are included in the project Manual of Operations. *Eligible users* include groups or organizations with or without legal status with more than five non-related members who form part of the target group. PEU or EDRs can submit an application as long as the benefits are directed to eligible groups or organizations. *Eligible projects* include those presented by organizations for proposals for technical services and proposals for investments. Other conditions for eligibility include a maximum amount per family, a contribution in cash or in kind by the organization and evidence that the projects have financial, technical, and environmental sustainability. The organizations must also be able to demonstrate their implementation capacity.

30. A municipal infrastructure rehabilitation fund (FOR) will be created to provide funds under grant conditions to eligible municipalities in order to finance infrastructure rehabilitation to alleviate the destruction caused by hurricane Mitch. Funds will be granted under strict eligibility criteria for beneficiaries and projects. Criteria for fund eligibility and rules of management are outlined in the main text of the Appraisal Report. Fund financing will be concentrated in the most disadvantaged municipalities, which will be determined according to the Human Development Index elaborated by the United Nations Development Programme (UNDP). The funds will finance: (i) projects related to the rehabilitation of rural roads, social infrastructure, especially schools and sanitary posts, and farming land and plantations; and (ii) programmes for the distribution of seeds, fertilizers and strategic inputs in order to rehabilitate the food production process quickly. Applications for project financing will be presented by municipalities and will have the explicit support and approval of the communities involved in the project and the Municipal Development Council (CODEM). The maximum amount per municipality will not exceed the equivalent of USD 250 000 in one or more projects. Other conditions for eligibility include a maximum of USD 500 per family.

**31. Financing proposals will be presented to PEU, which will be responsible for verifying the proposal's eligibility, feasibility and sustainability. It will then be presented with a technical report for the approval of the Municipal Investments Committee (MIC). The MICs will be appointed in the targeted municipalities. Each MIC will be composed of the mayor, a representative of CODEM and two project staff members. Approved proposals will be submitted to the project administration for contracting and disbursement processing. The Sub-Directorate of Investments and Services will carry out monitoring of projects implemented with FOR financing, and will track the implementation of municipal plans, their impact and compliance with contract clauses. The monitoring process will be carried out jointly with CODEM and CODECO, which will be involved in the monitoring of progress and measuring of impact.**

32. **Strengthening of EDRs.** The quality of the services delivered should in time create sufficient impact to the point that the increased income will exceed the costs of the services. This will be done



primarily through training, workshops, field tours, and facilitating the access of EDRs to necessary supplies and equipment. EDRs will be assisted in improving in three basic areas: the technology message, the methodology of technology transfer, and their improvement as service organizations.

### **Community financial services**

33. The main objective of the component is to facilitate access to financial services (savings and credit) by families of the target group. The basic objective is to establish a sustainable credit system that will survive after project completion. The concept involves the application of non-subsidized interest rates, and the adoption of appropriate procedures and techniques for financial administration. The system will be based on local savings, and on highly qualified management. The component will operate through formal and informal financial institutions. Activities will be oriented in three major areas: strengthening of local financial intermediaries (IFLs), access of IFLs to financial funds from the formal financial sector, and financial qualification.

34. **Training and institutional strengthening.** The objective is to develop and strengthen the administrative capacity of qualified IFLs through targeted training and technical assistance. PEU will contract consulting enterprises to implement these activities, in accordance with terms of reference, analysis of proposals and selection, subject to approval of IFLs.

35. **Facilitating access of IFLs to financing.** The project will transfer funds to two or more ImFIs regulated by the *Comisión de Banca y Seguros*. Three ImFIs have already announced their willingness to participate. The funds will be transferred from the project to ImFIs through an agreement signed between the Secretary of Finance and ImFIs. IFLs will have access to discount financial resources from ImFIs, and the ImFIs will assume the default risk and will have full responsibility for implementation. The project will provide technical assistance and training. With improved access to funds from the formal financial sector, IFLs will be able to provide better coverage of services to a larger number of clients, while also reducing their operational costs.

36. **Qualification.** The objective is to assure the financial health of IFLs to guarantee their sustainability and the security of captured savings. The project will establish a series of operational and financial indicators to measure the status of IFLs, set up evaluation parameters, and establish a monitoring and control system.

### **D. Costs and Financing**

37. **Costs.** The total project cost, including contingencies is USD 22.50 million. The total cost of contingencies is estimated at USD 0.43 million, which is 2% of total base costs. Investments represent 79% of the base costs (USD 14.58 million), and recurring costs represent 21% (USD 3.98 million). Foreign Exchange costs total USD 1.61 million, representing 8% of total costs. Project costs are summarized in Table 1.

**TABLE 1: SUMMARY OF PROJECT COSTS <sup>a</sup>**  
(USD million)

Components	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
<b>A. Community development</b>					
1. Promotion and organization	0.73	-	0.73	-	3
2. Training	0.14	0.02	0.16	15	1
3. Communication	0.22	-	0.22	-	1
4. Gender	0.10	-	0.10	-	-
5. Subdirection	0.79	0.07	0.87	8	4
<b>Subtotal</b>	<b>1.98</b>	<b>0.10</b>	<b>2.08</b>	<b>5</b>	<b>9</b>
<b>B. Investment and services</b>					
1. Rehabilitation fund	2.80	0.70	3.50	20	16
2. Rural investment fund	9.37	0.88	10.25	9	46
3. Strengthening of EDRs	0.15	0.03	0.18	14	1
4. Subdirection	0.91	0.09	1.00	9	5
<b>Subtotal</b>	<b>13.23</b>	<b>1.69</b>	<b>14.93</b>	<b>11</b>	<b>68</b>
<b>C. Community financial services</b>					
1. Institutional strengthening	0.43	0.18	0.61	30	3
2. Credit fund	2.00	-	2.00	-	9
3. Subdirection	0.42	0.07	0.49	15	2
<b>Subtotal</b>	<b>2.84</b>	<b>0.26</b>	<b>3.10</b>	<b>8</b>	<b>14</b>
<b>D. Management and administration</b>	<b>1.76</b>	<b>0.20</b>	<b>1.96</b>	<b>10</b>	<b>9</b>
<b>Total base costs</b>	<b>19.82</b>	<b>2.25</b>	<b>22.07</b>	<b>10</b>	<b>100</b>
Physical contingencies	0.06	0.03	0.09	34	-
Price contingencies	0.32	0.03	0.34	8	2
<b>Total project costs</b>	<b>20.19</b>	<b>2.31</b>	<b>22.50</b>	<b>10</b>	<b>102</b>

a Discrepancies in totals are due to rounding.

38. **Financing.** IFAD will finance USD 19.30 million (85.8%) of project costs. The Government will contribute USD 2.40 million (12.6%), and the beneficiaries/municipalities will contribute USD 0.80 million representing (4.2%). The proposed financing plan is summarized in Table 2.



**TABLE 2: FINANCING PLAN<sup>a</sup>**  
(USD million)

Components	IFAD		Government		Beneficiaries / Municipalities		Total		For. Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%			
<b>A. Community development</b>											
1. Promotion and organization	0.69	90.0	0.08	10.0	-	-	0.77	3.4	-	0.69	0.08
2. Training	0.16	95.6	0.01	4.4	-	-	0.17	0.8	0.03	0.14	0.01
3. Communication	0.21	90.0	0.02	10.0	-	-	0.23	1.0	-	0.21	0.02
4. Gender	0.11	100.0	-	-	-	-	0.11	0.5	-	0.11	-
5. Subdirection	0.89	96.9	0.03	3.1	-	-	0.92	4.1	0.08	0.81	0.03
<b>Subtotal</b>	<b>2.06</b>	<b>93.8</b>	<b>0.14</b>	<b>6.2</b>	<b>-</b>	<b>-</b>	<b>2.20</b>	<b>9.8</b>	<b>0.11</b>	<b>1.96</b>	<b>0.14</b>
<b>B. Investment and services</b>											
1. Rehabilitation fund	3.50	100.0	-	-	-	-	3.50	15.6	0.70	2.80	-
2. Rural investment fund	8.46	82.5	0.99	9.7	0.80	7.8	10.25	45.6	0.88	8.38	0.99
3. Strengthening of EDRs	0.18	94.6	0.01	5.4	-	-	0.19	0.8	0.03	0.15	0.01
4. Subdirection	1.02	95.0	0.05	5.0	-	-	1.08	4.8	0.10	0.93	0.05
<b>Subtotal</b>	<b>13.16</b>	<b>87.6</b>	<b>1.06</b>	<b>7.0</b>	<b>0.80</b>	<b>5.3</b>	<b>15.02</b>	<b>66.7</b>	<b>1.70</b>	<b>12.26</b>	<b>1.06</b>
<b>C. Community financial services</b>											
1. Institutional strengthening	0.61	90.0	0.07	10.0	-	-	0.68	3.0	0.20	0.41	0.07
2. Credit fund	1.00	50.0	1.00	50.0	-	-	2.00	8.9	-	2.00	-
3. Subdirection	0.50	94.4	0.03	5.6	-	-	0.53	2.3	0.08	0.42	0.03
<b>Subtotal</b>	<b>2.10</b>	<b>65.7</b>	<b>1.10</b>	<b>34.3</b>	<b>-</b>	<b>-</b>	<b>3.20</b>	<b>14.2</b>	<b>0.28</b>	<b>2.82</b>	<b>0.10</b>
<b>D. Management and administration</b>	<b>1.97</b>	<b>94.7</b>	<b>0.11</b>	<b>5.3</b>	<b>-</b>	<b>-</b>	<b>2.08</b>	<b>9.2</b>	<b>0.22</b>	<b>1.76</b>	<b>0.11</b>
<b>Total Disbursement</b>	<b>19.30</b>	<b>85.8</b>	<b>2.40</b>	<b>10.7</b>	<b>0.80</b>	<b>3.6</b>	<b>22.50</b>	<b>100.0</b>	<b>2.31</b>	<b>18.79</b>	<b>1.40</b>

a Discrepancies in totals are due to rounding.





### **E. Procurement, Disbursement, Accounts and Audit**

39. **Procurement.** Contracting of technical assistance consultants will be carried out in accordance with the norms established in the loan agreement. Contracts for goods or services valued over USD 200 000, will be contracted through international competitive bidding. Contracts valued between over USD 30 000 and USD 200 000 will be contracted through national competitive bidding. Contracts valued between over USD 3 000 and USD 30 000 will be contracted through local shopping with at least three eligible bidders. Contracts valued at USD 3 000 and less will be contracted through direct contracts by the Project Procurement Committee, which will be established to assure transparency of transactions.

40. **Disbursement.** Disbursement of loan resources will be made in accordance with procedures defined in the loan agreement and those of the cooperating institution. To assure adequate flow of funds, the borrower shall open and maintain a Special Account in the Central Bank of Honduras, or another bank satisfactory to IFAD. An initial deposit of USD 2 000 000 will be made to that account. Replenishment of the Special Account will be made in accordance with the procedures established in the loan agreement and the disbursement procedures of the cooperating institution. The closing date of the loan is 31 December 2005.

41. **Accounting, audits and reporting.** All of the institutions that receive project funds shall maintain separate accounts. Records will then be consolidated at the PEU level. The Government will carry out an annual audit in accordance with independent auditing procedures. The Government will then send the annual audit report to IFAD and the cooperating institution no later than six months after the end of the fiscal year. PEU will submit preliminary audit reports to IFAD and the cooperating institution every six months.

### **F. Organization and Management**

42. **Beneficiary participation and project sustainability.** The project will be almost entirely demand-driven and will carry out activities to strengthen users' organizations to improve their decision-making capacity, largely through strong organizational promotion and training activities. The project will also establish mechanisms for local decision-making that will contribute to project sustainability. At the same time, the influence of technicians and project officials will be reduced, with the understanding that their presence in the region is temporary. Representatives of the users will sit on the Project Board of Directors (PBOD) and on the Project Approval Committee (CAP) decision-making chain will be inverted so that local proposals shape the PEU implementation plan, and not vice versa.

43. **Project implementation.** The Secretariat of Agriculture and Livestock (SAG) will be responsible for project implementation. It will establish an autonomous PEU with its own budget, and technical and financial autonomy. PEU will be directly responsible to PBOD and will be regulated by a Manual of Operations. The project will operate under the authority of SAG, and will maintain horizontal coordination with the different SAG general directorates, particularly the Directorate of Agricultural Science and Technology (DICTA) and the General Directorate of Integrated Agricultural Development (DGDAI). The project will also coordinate with the other two ongoing IFAD-financed projects in Honduras, and other institutions of the public agricultural sector operating in the project area, particularly the Honduran Corporation of Forestry Development (COHDEFOR), the Honduran Coffee Institute (IHCAFE) and the National Institute of Agriculture (INA). PEU and its core staff will be based in the city of Marcala (Department of La Paz).

44. There will be five major implementing bodies: PBOD, the Project Approval Committee (CAP) of FIR, the local Appraisal and Negotiation Committee for decentralized FIR activities (CAN), the



Municipal Investments Committee (COM) and PEU. PBOD will be the highest authority. Its main activities will be related to defining policies, strategies and project priorities. It will approve regulations and operational norms, the Manual of Operations, annual work plans and budget, and audited financial statements. Finally, it will appoint the higher-level project personnel, and assure coordination with the different government and private-sector entities.

45. The main activity of CAP will be to administer and approve the disbursements of FIR, as described above in the section on the investments and services component. The FIR will provide partial, non-reimbursable financing for microprojects presented by users organizations. There will be four CANs located in Goascorán, La Esperanza, Camasca and San Antonio del Norte. The CANs will prioritize local proposals and negotiate contracts with constructors and service providers. A draft Manual of Operations for the FIR is included in the annex to the main text of the Appraisal Report. The COM will prioritize and approve projects to be financed by FOR. PEU will guarantee that microprojects referred to CAP for approval comply with the Manual of Operations criteria. CAP will approve projects with budgets over USD 3 000 and under USD 50 000. Projects with larger budgets will be submitted for approval to PBOD, and those with budgets under USD 3 000 will be approved by the project director. The preparation of an operational manual for FIR, FOR and IFAD's approval thereof, is one of the conditions for disbursement.

46. PEU will report directly to the PBOD, which establishes PEU at the beginning of the project. PEU will be responsible for implementing activities in accordance with the loan agreement, the project operational norms, and decisions taken by PBOD and CAP. PEU will consist of four operational areas: (i) implementation of project components, (ii) administration and internal auditing, (iii) administration of the FIR, and (iv) planning and monitoring.

47. Specific management and logistic support-service agreements will be signed with UNDP-Honduras. These will cover: (i) contracting of private service-delivery agencies, farmer organizations, NGOs and works financed through the FIR, and (ii) purchases of equipment and vehicles.

48. At the local level, the project will be implemented with the broad participation of organizations of the users of project services, local government, and EDRs. Beneficiaries and local municipal governments will be represented on the committee for approval of local projects. The project will support the consolidation of the Municipal Development Councils (CODEMs) and the Community Development Councils (CODECOs) to better support project activities.

49. **Project implementation phases.** The project will be implemented in three phases: a preparatory phase (prior to project start-up), a start-up phase, and the full implementation phase. Project implementation will take place over a six-year period. The first phase will last about six months. The objective is to put into place all of the mechanisms necessary for the project to begin operations. The main objective of the second phase is to prepare the users' organizations in the poorest communities to be capable of planning and designing their own rural development proposals. The main activities during this phase will be promotion, motivation and training of users, leaders, municipal government representatives, and technical staff of EDRs, and of the project and SAG staff. During the full implementation phase, the main activities will be related to formulation and implementation of local rural development microprojects that respond to the demands formulated by the target group's organizations.

50. **Gender considerations.** All activities will focus on the family as a whole, assuring that men and women have equitable access to project resources and services in order to improve the quality of life of all family members. The lessons of gender experiences in IFAD projects already implemented in Honduras will be incorporated. A project gender specialist will assure a monitored project gender focus.



51. **Monitoring and evaluation.** PEU will include a planning and monitoring unit. The objective of the unit will be to: (i) implement an information system that allows the different project managers and decision-makers – including beneficiary representatives on project bodies – to be informed periodically about project implementation advances and results and the degree of plan accomplishment. The monitoring process will be conducted with the participation of project beneficiaries; and (ii) consolidate plans presented by the various project units, with the support of the units, and formulate the consolidated annual plan of the project.

52. The project will contract an independent organization to carry out periodic evaluations, including a baseline study, mid-term and completion evaluations. This organization will focus on project results and the performance of the demand-driven approach.

### **G. Economic Justification**

53. **Production and marketing.** The opportunities to improve production and increase income will derive from: increased yields of existing crops, expansion of the area under coffee cultivation, diversification into higher-value crops – especially vegetables under irrigation, improved productivity of natural resources through reducing erosion and the rational use of forest resources.

54. The main technological changes that are anticipated for production systems include: tillage, contour tillage and the use of live fences to reduce erosion, increase organic content, and increase water retention and soil fertility. For basic grains – mainly beans and maize – improved seed selection has great potential for improving yields, as does increasing the density of plants per hectare. It has also been shown that planting maize associated with leguminous ground cover is an integrated practice that improves soil fertility and productivity. Post-harvest storage of grains is also critical. In Honduras, the use of small, locally made family silos for grain storage has been promoted to reduce post-harvest losses, and the project will support such demands made by organizations and communities.

55. Improvements in coffee production tend to involve pruning and renovation of the coffee plants, increasing the number of plants per hectare and incorporating bananas as a complementary shade crop. There is great interest in the use of organic fertilizers. Harvesting, post-harvest handling, bean extraction and drying are all important activities to add value to the crop.

56. Some of the more consolidated organizations will be able to diversify, with intensive horticultural crops, irrigation, appropriate technology, financing, improved post-harvest handling, and marketing. Some of the microenterprises for processing or storage of agricultural products include manufacture of family silos for grain preservation, drying of grains, coffee processing and small carpentry enterprises.

57. **Benefits and beneficiaries.** Direct beneficiaries of the investment and income-generating activities are estimated at 11 500 smallholder families. Total beneficiaries will be some 69 000 people.



58. There will be very little increase in area cultivated (270 ha for coffee cultivation and 40 ha for irrigated vegetables). However it is estimated that increased productivity will be 100% for coffee, 60% for maize, 50% for beans and 40% for potatoes. It is also anticipated that there will be improved productivity and production of milk, cattle and small livestock. The total value of increased productivity is estimated to be 1.8 times the without-project value, or an increase of USD 5.45 million, with a total value of USD 12.3 million. The estimated increased annual family income from agricultural activities is USD 550 to a total of USD 1 125 by full project implementation. The increased return on family labour is projected to go from a daily rate of USD 4.7 to USD 6. It is expected that the project will generate 368 000 workdays in increased employment compared to the without-project situation.

59. **Economic analysis and feasibility.** The economic analysis reflects an internal rate of return (IRR) of 14.1% and a net present value (NPV) of USD 5.9 million. That results in a benefit/cost ratio of 1.23. A sensitivity analysis indicates that with a 10% reduction in benefits, the IRR would go down to 11%. With a 20% reduction in benefits, the IRR would go down to 7.6%, which is slightly below the opportunity cost of capital. The benefit/cost ratio would go down to 1.11 and 0.99, respectively. An increase in costs would have less of an impact. With a 20% increase in costs, the IRR would go down to 8.8%, which is still higher than the opportunity cost of capital. The least sensitive variable is the rate of incorporation of beneficiaries. Even with a delay of three years, the IRR is equal to the opportunity cost of capital, and the benefit/cost ratio is 1.0. A 25% increase in wages would reduce the IRR to 12.6% and the benefit/cost ratio to 1.17.

## H. Risks

60. In spite of PLANDERO's positive experiences, the operational arrangements for contracting out production and financial services paid for with government and international funding have not yet been sufficiently institutionalized. The selection and contracting of private service-delivery companies and farmer organizations, and to a lesser degree the transfer of government funds to farmer organizations, NGOs, and other organizations, is painstakingly regulated by red-tape-filled national norms and bidding procedures. This situation creates insecurities that affect the mutual confidence and trust necessary among the parties involved. The local market for service delivery has yet to be developed and cannot be tapped through standard bidding procedures required by governmental and international agencies. It is expected that once this innovative approach is known outside the intervention area, the private sector will respond accordingly and amplify its presence in the region. Using UNDP-Honduras' national operational methods will create some of the required freedom of action.

## I. Environmental Impact

61. The project will not support microprojects that have a negative environmental impact. Many of the activities will have a positive environmental impact, such as those related to reducing erosion (improved tillage, increasing organic content, use of live fences, etc.). Other activities that will have a positive environmental impact include promotion of sustainable exploitation of forest resources (reduced burning of forests for clearing of agricultural land, financing of small nursery activities, etc.) and support to communities in reforestation of small watersheds. No contamination of surface or subterranean water by pesticides or fertilizers is anticipated. By their nature and application, the proposed agricultural practices should have a positive impact on sustainable productivity and on conservation of natural resources and the environment in general.

## J. Innovative Features

62. The project incorporates:

- (a) Innovative mechanisms and activities that have either not been included or have not been developed to the same degree in previous experiences in Honduras. These innovative



approaches reflect the recommendations made in the portfolio evaluation, the strategy developed for Honduras, the recommendations made by the International Food Policy Research Institute (IFPRI) and the observations of the mission.

- (b) An *explicit mechanism for targeting* the poorest and more marginalized areas and communities. Special attention will be given to indigenous people, the landless, women and youth. Targeting will be grounded in the baseline study, which will define a typology of the various groups of poor in the project area. A *needs assessment process* will be carried out in the targeted groups in order to formulate local microprojects suitable to the different interests. There are *mechanisms to address gender and ethnic inequities*, within communities and families. A unit will be established within the PEU to address and coordinate these issues. The project focuses on *household food security* as a strategy to help reverse the process of continued impoverishment of the target population.
- (c) *Mechanisms to assure true participation of the beneficiaries and their organizations* at all levels of planning, decision-making, contracting, monitoring and evaluation of services, comprising participation in PBOD and CAP. The project also incorporates important *implementation criteria* to guarantee that the above approaches are followed.

### **PART III – LEGAL INSTRUMENTS AND AUTHORITY**

- 63. A loan agreement between the Republic of Honduras and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.
- 64. The Republic of Honduras is empowered under its laws to borrow from IFAD.
- 65. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

### **PART IV – RECOMMENDATION**

- 66. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Honduras in various currencies in an amount equivalent to thirteen million seven hundred and fifty thousand Special Drawing Rights (SDR 13 750 000) to mature on and prior to 1 September 2038 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan  
President



## SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

For the financial services component, the Government of Honduras (the Government) will make available to ImFIs the amounts allocated to the credit fund and whatever other amounts that may be required for the due execution of this component, as provided under such agreements for the management of funds as have been entered into by the PEU and ImFIs and as approved by IFAD. The Government will cause ImFIs to direct the said amounts to IFLs as provided for in loan agreements between ImFIs and the IFLs and having form and content for which the prior acceptance of IFAD has been obtained and which comply with the credit rules.

2. The Government will cause the PEU to open and maintain a project account in lempiras with a financial institution acceptable to IFAD in Marcala, Department of La Paz. The Government will deposit an initial amount of HNL 130 000 from its own resources into this account. Thereafter, and at yearly intervals, the Government will replenish this account and will deposit therein amounts that are necessary for its counterpart contribution and are deemed to be in conformity with the annual programme of work. The Head of the PEU and the Head of the Administrative Unit shall be fully authorized to operate jointly the project account.

3. The Government will cause ImFIs to establish and maintain a revolving fund for keeping therein the principal and interest net of operating costs and other reasonable expenses received via IFLs from microcredits granted to farmers under the project. Amounts thus available in the Revolving Fund shall be used by ImFIs for granting fresh microcredits via IFLs substantially conforming to the terms of the loan agreement. These microcredits will continue to be granted at least until such time as the principal, servicing commission and other charges on the project have been paid in full.

4. During the execution of the project, the Government and IFAD will from time to time review interest rates applied to credits granted out of the proceeds of the loan. The Government will take appropriate measures, as required, to ensure that such rates are consistent with Government policy, in order to harmonize interest rates on such credits with IFAD's policy on relending rates.

5. Pursuant to paragraph 4, the Government will ensure that the ImFIs and the IFLs should keep to a minimum costs having to do with the community financial services to the extent that such costs affect interest differentials.

6. The Government undertakes to make provision each year under the National Budget for: (a) the national counterpart funds necessary for the completion and uninterrupted execution of the project, in an amount equivalent to USD 2 400 000; and (b) coverage of current operating expenses under the project, once execution is completed, for a further period of three years, with special reference to supplementary costs of extension, in which case costs and funding must be clearly established prior to the conclusion of the last year of the project.

7. The Government will cause PBOD to submit programmes of work to IFAD and to the cooperating institution for consideration and approval not later than 1 October each year, i.e., prior to the beginning of the Government's fiscal year in each case. Programmes of work will be drawn up in terms of annual plans together with the relevant budget allocations that are to be prepared by the project executing agencies. The Government will ensure that PBOD shall take into due consideration the requirements and observations that IFAD and the cooperating institution may put forward in



ANNEX

connection with such programmes of work and shall incorporate such requirements and observations when finalizing any programme of work.

8. A review and evaluation mission will be conducted at the latest before the end of the third year of the project. The mission will consist of representatives of the Government and IFAD and the cooperating institution. In the course of the mission, an evaluation will be made of the achievements and fallings short of project objectives. Where necessary, proposals will be made for re-orienting the project in such a way as to ensure that the objectives are achieved and the deficiencies made good. The Government will ensure that the recommendations coming out of the mission are implemented within a reasonable time and to IFAD's satisfaction.

9. The Government will ensure that all purchases of items financed out of the loan shall be exempt and that payment therefor shall be made without any deduction and shall be free of any Government tax.

10. The following are specified as being additional conditions precedent to the effectiveness of the loan agreement, namely that:

- (a) PEU and PBOD shall have been duly constituted in conformity with the provision of paragraphs 2 and 3*ff*, of Schedule 4 of the loan agreement;
- (b) the manager and assistant managers of the PEU shall have been duly appointed by PBOD as provided for under paragraph 4(c) of Schedule 4 of the loan agreement, to IFAD's satisfaction, and shall have taken up their respective duties;
- (c) the Government shall have included in the National Budget an allocation corresponding to the first deposit into the project account, as required by Section 4.02 of the loan agreement.

11. No withdrawal shall be made in respect of :

- (a) vehicles, equipment and furniture, the Municipal Infrastructure Renewal Fund (FOR) or contract services before an agreement for the administration of the relevant funds has been entered into by PEU and an agency for contract administration subject to the prior approval of IFAD;
- (b) FIR, until this fund's operational rules have been adopted, subject to the prior approval of IFAD;
- (c) FOR, until this fund's operational rules have been adopted, subject to the prior approval of IFAD;
- (d) the fund for credit and technical assistance (with reference to a specific ImFI) until: (i) the credit regulations have been adopted, subject to the prior approval of IFAD; and (ii) an agreement for the administration of such fund has been entered into by PEU and the ImFI in question; and until, in both cases, the prior approval of IFAD has been obtained.





## COUNTRY DATA

## HONDURAS

<b>Land area (km<sup>2</sup> thousand) 1995 1/</b>	<b>112</b>	<b>GNP per capita (USD) 1996 2/</b>	<b>660</b>
<b>Total population (million) 1996 1/</b>	<b>6</b>	<b>Average annual real rate of growth of GNP per capita, 1990-96 2/</b>	<b>1.2</b>
<b>Population density (people per km<sup>2</sup>) 1996 1/</b>	<b>50</b>	<b>Average annual rate of inflation, 1990-96 2/</b>	<b>20.0</b>
<b>Local currency</b>	<b>Lempira (HNL)</b>	<b>Exchange rate: USD 1 =</b>	<b>HNL 13.3</b>
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population (average annual population growth rate) 1980-96 1/	3.2	GDP (USD million) 1996 1/	4 011
Crude birth rate (per thousand people) 1996 1/	35	Average annual rate of growth of GDP 1/ 1980-90	2.7
Crude death rate (per thousand people) 1996 1/	6	1990-96	3.5
Infant mortality rate (per thousand live births) 1996 1/	44	Sectoral distribution of GDP, 1996 1/	
Life expectancy at birth (years) 1996 1/	67	% agriculture	21.7
Number of rural poor (million) 1/	2	% industry	30.9
Poor as % of total rural population 1/	46.0	% manufacturing	18.3
Total labour force (million) 1996 1/	2	% services	47.4
Female labour force as % of total, 1996 1/	30.2	Consumption, 1996 1/	
<b>Education</b>		General government consumption (as % of GDP)	9.5
Primary school gross enrolment (% of relevant age group) 1995 1/	111.0	Private consumption (as % of GDP)	63.2
Adult literacy rate (% of total population) 1994 3/	98.1	Gross domestic savings (as % of GDP)	27.4
<b>Nutrition</b>		<b>Balance of Payments (USD million)</b>	
Daily calorie supply per capita, 1992 3/	n.a.	Merchandise exports, 1996 1/	845
Index of daily calorie supply per capita (industrial countries=100) 1992 3/	n.a.	Merchandise imports, 1996 1/	1 922
Prevalence of child malnutrition (% of children under 5) 1990-96 1/	18.0	Balance of merchandise trade	-1 078
<b>Health</b>		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 1990-95 1/	5.6	before official transfers, 1996 1/	- 443
Physicians (per thousand people) 1994 1/	0.4	after official transfers, 1996 1/	- 201
Access to safe water (% of population) 1990-96 3/	n.a.	Foreign direct investment, 1996 1/	75
Access to health service (% of population) 1990-95 3/	n.a.	<b>Government Finance</b>	
Access to sanitation (% of population) 1990-96 3/	n.a.	Overall budget surplus/deficit (including grants) (as % of GDP) 1995 1/	n.a.
<b>Agriculture and Food</b>		Total expenditure (% of GDP) 1995 1/	n.a.
Food imports as percentage of total merchandise imports 1996 1/	15.5	Total external debt (USD million) 1996 1/	4 453
Fertilizer consumption (hundreds of grams per ha of arable land) 1994-96 1/	340	Total external debt (as % of GNP) 1996 1/	14.1
Food production index (1989-91=100) 1994-96 1/	104	Total debt service (% of exports of goods and services) 1996 1/	28.8
<b>Land Use</b>		Nominal lending rate of banks, 1996 1/	29.7
Agricultural land as % of total land area, 1994 4/	31.9	Nominal deposit rate of banks, 1996 1/	16.7
Forest area (km <sup>2</sup> thousand) 1995 1/	41		
Forest area as % of total land area, 1995 1/	36.8		
Irrigated land as % of cropland, 1994-96 1/	3.6		

n.a. not available.

Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 19982/ World Bank, *Atlas*, 19983/ UNDP, *Human Development Report*, 19974/ World Bank, *The World Development Indicators CD-ROM*, 1998



### PREVIOUS IFAD LOANS TO HONDURAS

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/ Grant Amount	Disbursement (as percentage of approved amount)
Rural Development Project for the Western Region	IFAD	IDB	HC	19-Dec-79	2-May-80	31-Dec-87	G - I - 19 - HO	SDR	270 000	
							L - I - 29 - HO	SDR	7 700 000	99%
Santa Barbara Rural Development Project	IFAD	BCIE	I	14-Sep-82	3-Feb-84	31-Mar-90	L - I - 99 - HO	SDR	10 850 000	23%
Intibucá-La Paz Rural Development Project	IFAD	IDB	I	29-Apr-87	19-Aug-88	31-Dec-97	L - I - 203 - HO	SDR	4 850 000	67%
Agricultural Development Programme for the Western Region (PLANDERO)	IFAD	BCIE	HC	15-Sep-93	28-Nov-94	30-Jun-00	L - I - 336 - HN	SDR	5 500 000	45%
Rural Development Project in the Central Eastern Region	IFAD	BCIE	HC	29-Apr-97	18-Feb-98	30-Jun-04	G - I - 28 - HN	USD	95 000	100%
							L - I - 446 - HN	SDR	8 900 000	8%

Note: HC = highly concessional

I = intermediate

## MARCO LÓGICO

OBJETIVO	INDICADORES	MEDIOS DE VERIFICACIÓN	SUPUESTOS/RIESGOS
<p><b>I. FIN</b></p> <p><b>Objetivo Macro</b></p> <p>Crear y fortalecer sosteniblemente los mecanismos de participación comunitaria que faciliten reducir las restricciones causantes de la pobreza de la población de la región sur-occidental de Honduras, en relación a la seguridad alimentaria, ingresos monetarios, equidad, producción y productividad, preservación de los recursos naturales, movilización de recursos financieros y la inserción en el mercado (demanda y oferta) de servicios.</p>	<ul style="list-style-type: none"> <li>• 260 comunidades participan en todo el proceso de decisión del proyecto (Junta Directiva, Comité de Aprobación de Proyectos, comités de desarrollo comunitario) en los seis años de ejecución.</li> <li>• 11 500 familias consumen, al menos, la dieta básica (alimentación y nutrición asegurada) al finalizar el proyecto.</li> <li>• 11 500 familias incrementan su nivel de ingreso per cápita actual (USD 580/anual) en un 20% al finalizar el proyecto.</li> <li>• El 100% de las familias participantes desarrollan sus actividades productivas bajo el enfoque de medio ambiente desde 1999 a 2005.</li> </ul>	<p>Línea de base del proyecto</p> <p>Evaluación de medio término, final y ex-post</p> <p>Memorias anuales</p>	<p>Estabilidad política y macroeconómica del país</p> <p>Condiciones agroecológicas favorables</p>
<p><b>II. PROPOSITO</b></p> <p><b>Objetivo del Proyecto</b></p> <p>Crear y fortalecer un mercado (demanda y oferta) de servicios de desarrollo rural, para mejorar la capacidad de decisión de las familias participantes para que demanden apoyo a la producción, organización, planificación, gerencia y finanzas.</p>	<ul style="list-style-type: none"> <li>• 11 500 familias participan en las instancias locales para demandar servicios al proyecto en los seis años de ejecución.</li> <li>• 22% de los participantes son mujeres al finalizar el proyecto.</li> <li>• 10 Empresas de Desarrollo Rural ofrecen servicios a las comunidades en los seis años de ejecución.</li> <li>• 150 CODEM y CODECO, participan en el proyecto desde 1999 a 2005.</li> <li>• 3 IF y 50 IFL participan en la canalización de fondos a las familias rurales desde 1999 a 2005.</li> <li>• 590 proyectos/solicitudes de financiamiento comunales aprobados, desde 1999 a 2005.</li> </ul>	<p>Línea de base del proyecto</p> <p>Evaluación de medio termino, final y ex-post</p> <p>Informe de actividades</p> <p>Informes de las EDR contratadas</p> <p>Memorias anuales</p> <p>Estudios específicos</p>	<p>No existen en la zona otros programas con filosofía diferenciada a la propuesta del proyecto</p> <p>Empoderamiento de las acciones del proyecto por parte de las comunidades.</p>





OBJETIVO	INDICADORES	MEDIOS DE VERIFICACIÓN	SUPUESTOS/RIESGOS
<b>OBJETIVOS ESPECÍFICOS/PRODUCTOS</b>			
<p><b>A. Gestión y Administración del Proyecto</b></p> <p>Operativizar un sistema gerencial del proyecto contemplando la integración del sector privado, público y las comunidades beneficiarias.</p>	<ul style="list-style-type: none"> <li>• Seleccionados y contratados el 100% del personal que se requiere para la ejecución del proyecto en el primer año.</li> <li>• El POA está acordado en consenso a fines de cada año.</li> <li>• Las desviaciones entre lo planificado y ejecutado se reducen anualmente en un 10%.</li> <li>• Se contrata al menos 10 Empresas de Desarrollo Rural para la prestación de servicios técnicos desde 1999 a 2005.</li> <li>• Se firman cinco (5) convenios de cooperación institucional con organismos afines al proyecto, desde 1999 a 2005.</li> </ul>	<p>Contratos y convenios firmados</p> <p>Auditorías externas</p> <p>Registros contables</p> <p>Estados financieros</p>	<p><b>Las leyes del país permiten la flexibilidad en la aplicabilidad de las normas creadas por el proyecto.</b></p>
<p><b>B. Desarrollo Comunitario</b></p> <p>Dinamizar el mercado de servicios de desarrollo rural, fortaleciendo las capacidades organizativas y de gestión para la formulación de la demanda de los productores, apoyar la creación y competencia de la oferta institucional y facilitar el encuentro de ambos segmentos.</p>	<ul style="list-style-type: none"> <li>• 11 500 familias participan en las acciones que promueve el proyecto.</li> <li>• 590 organizaciones operan con visión empresarial y en proceso de inserción en el mercado en los seis años de ejecución.</li> <li>• 590 líderes comunitarios e igual cantidad de productores innovadores participando en la entrega de servicios en organización empresarial, mercadeo, y apoyo a la producción en los seis años de ejecución.</li> </ul>	<p>Informes anuales</p> <p>Informe de medio término</p> <p>Evaluación ex-ante y ex-post</p>	<p>Todas las familias participan activamente</p> <p>No hay en la zona otras instituciones de desarrollo con diferente filosofía a la que promueve el proyecto.</p>

OBJETIVO	INDICADORES	MEDIOS DE VERIFICACIÓN	SUPUESTOS/RIESGOS
<p><b>B1. Promoción y organización</b></p> <p>Las familias conocen, aceptan, se organizan y participan en la formulación de demandas al proyecto.</p>	<ul style="list-style-type: none"> <li>• Definidos por niveles de pobreza 29 municipios de la región.</li> <li>• 260 comunidades seleccionadas en base a los criterios establecidos.</li> <li>• Capacitados 150 técnicos de las EDR, en metodologías participativas y en el programa de promoción en los seis años de ejecución.</li> <li>• 38 municipios informados de los Servicios de Desarrollo Rural, que ofrezca el proyecto en los seis años de ejecución.</li> <li>• 590 grupos de productores organizados y formulando igual número de proyectos, desde 1999 a 2005.</li> <li>• 150 subcomisiones productivas del CODECO/CODEM funcionando en los seis años de ejecución.</li> <li>• 260 planes comunitarios de desarrollo elaborados en los seis años de ejecución.</li> </ul>	<p>Sistema de información del Departamento de Seguimiento.</p> <p>Informes de eventos de inducción y capacitación a las EDR</p> <p>Informes de eventos de promoción de EDR</p> <p>Informes de supervisión y control de calidad</p> <p>Documentos de diagnóstico y planes de desarrollo comunitario</p> <p>Informes de las EDR</p>	<p>Líderes municipales y comunitarios apoyan adecuadamente la selección de participantes</p> <p>Las familias desean participar</p> <p>Inexistencia de injerencias políticas en la selección de participantes</p>
<p><b>B2. Capacitación</b></p> <p>Dotar a los productores de los conocimientos, habilidades y destrezas para el éxito de las actividades propuestas.</p>	<ul style="list-style-type: none"> <li>• 590 grupos capacitados adoptan tecnologías para mejorar su sistema de producción y productividad y participan en el mercado en los seis años de ejecución.</li> <li>• 550 productores innovadores capacitados en metodologías de transferencia y de conocimientos técnicos, en los seis años de ejecución.</li> <li>• 200 jóvenes y escolares incorporados a los procesos de formación, en los seis años de ejecución.</li> <li>• 150 CODEM y CODECO capacitados en gestión de desarrollo local, en los seis años de ejecución.</li> </ul>	<p>Registro de eventos de capacitación</p> <p>Base de datos</p> <p>Informes de EDR</p> <p>Informes de supervisión y control de calidad</p> <p>Evaluación de medio término</p> <p>Estudios de caso</p> <p>Informes periódicos</p>	<p>Existencia de oferentes de capacitación especializados y con experiencia.</p> <p>Selección adecuada de los participantes de los grupos.</p> <p><b>Capacidad de replicabilidad de los conocimientos recibidos</b></p>



OBJETIVO	INDICADORES	MEDIOS DE VERIFICACIÓN	SUPUESTOS/RIESGOS
<p><b>D. Servicios financieros comunitarios</b></p> <p>Crear las condiciones básicas para que las familias participantes accedan a los servicios financieros comunitarios</p>	<ul style="list-style-type: none"> <li>• 11 500 familias atendidas por el proyecto ahorran y reciben crédito en seis (6) años.</li> <li>• Un sistema de control y supervisión operando.</li> <li>• 3 convenios de administración de fondos con IF, operando desde 1999 a 2005.</li> <li>• 50 IFL intermediando recursos (21 cajas de segundo grado, 12 cooperativas y 17 cajas de primer grado) en los seis (6) años de ejecución.</li> <li>• 50 Intermediarias Financieras Locales fortalecidas empresarialmente en los seis (6) años de ejecución.</li> <li>• 250 funcionarios y socios capacitados para manejar su organización en los seis (6) años de ejecución.</li> <li>• 50 manuales operativos y contables aplicados en los seis (6) años de ejecución.</li> <li>• Un sistema de calificación y seguimiento operando desde 1999 a 2005.</li> </ul>	<p>Sistema de seguimiento y evaluación</p> <p>Informes anuales</p> <p>Evaluaciones intermedias</p> <p>Estados Financieros</p> <p>Informes de cartera de IF e IFL</p>	<p>Marco regulador del sistema financiero rural favorable</p> <p>Apropiación del sistema por parte de los beneficiarios</p> <p>Aceptación de las condiciones del redescuento por parte de las IFL.</p> <p>Disponibilidad de tiempo por parte de las IFL para recibir la capacitación</p>

**Siglas:**

**EDR:** Empresa de Desarrollo Rural  
**CODEM:** Consejo de Desarrollo Municipal  
**CODECO:** Consejo de Desarrollo Comunitario  
**IF:** Institución Financiera  
**IFL:** Intermediaria Financiera Local  
**POA:** Plan Operativo Anual



## OBJETIVOS, COMPONENTES, ACTIVIDADES Y PARÁMETROS PRODUCTIVOS Y FINANCIEROS

### OBJETIVO GENERAL

Crear/fortalecer un mercado sostenible de servicios de desarrollo rural en el área del proyecto, que contribuya a eliminar las principales manifestaciones de la pobreza (seguridad alimentaria, ingreso monetario, medio ambiente y equidad)

### OBJETIVOS ESPECÍFICOS

- (1) Fortalecer las capacidades organizativas y de gestión para la formulación de la demanda de los productores, apoyar la creación y competencia de la oferta institucional y facilitar el encuentro de ambos segmentos  
 (2) El funcionamiento del Fondo de Inversiones Rurales que asegure el acceso de las organizaciones del grupo meta a servicios técnicos e inversiones de infraestructura  
 (3) Favorecer el acceso a los servicios financieros -ahorro y crédito- de las familias que forman el grupo meta del proyecto  
 (4) Operativizar un sistema gerencial del proyecto, contemplando la integración del sector público y privado y las organizaciones de base

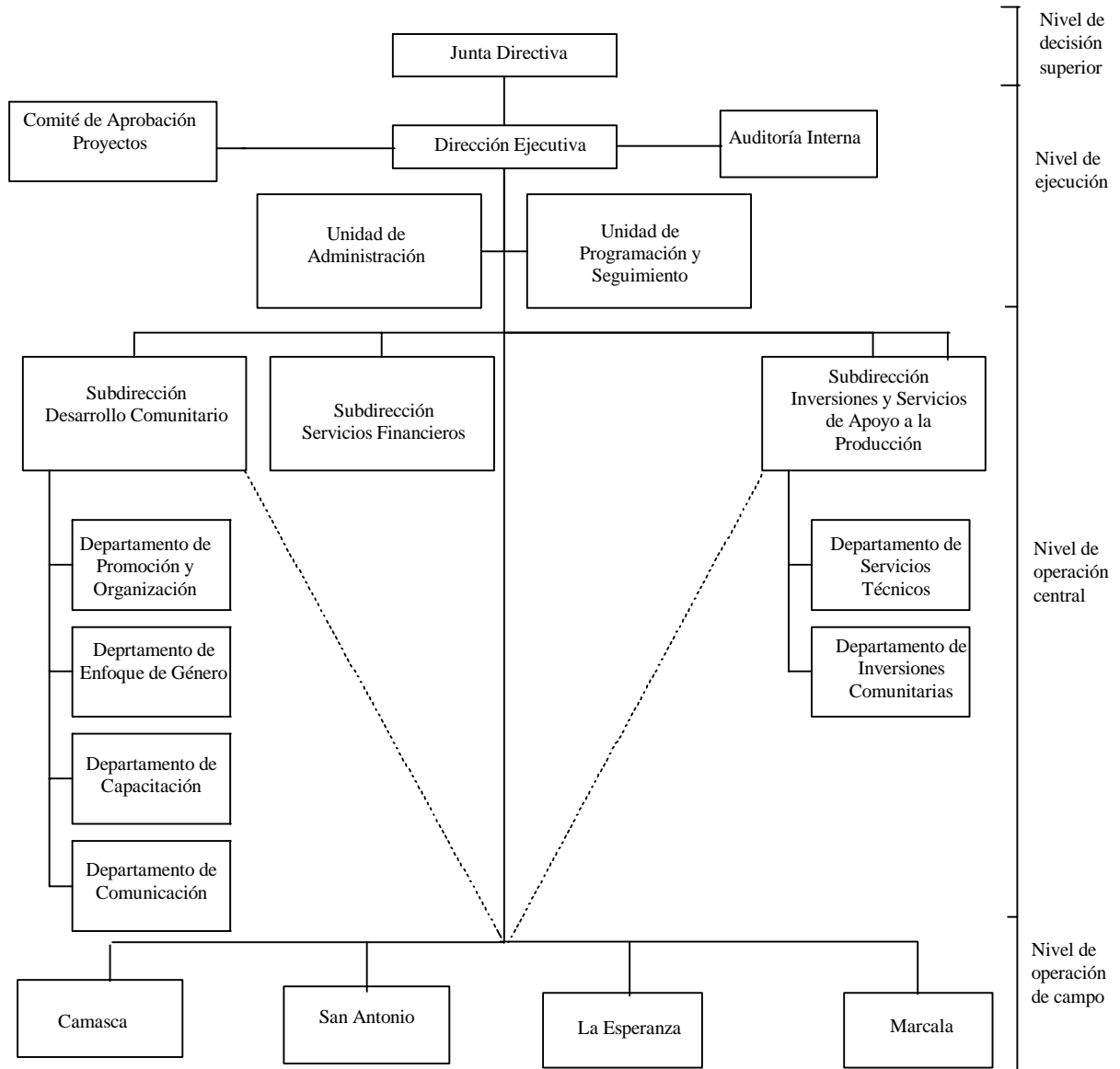
COMPONENTES	ACTIVIDADES	Años						Total	COSTOS Y FINANCIAMIENTO DEL PROYECTO				
		1	2	3	4	5	6		COMPONENTES	USD millón	IFAD %	GoH %	Benef. %
<b>A. Desarrollo Comunitario</b>									<b>A. Desarrollo Comunitario</b>	<b>2.20</b>	94	6	-
- Promoción y organización	Identificación y localización de las organizaciones (Comunidades)	27	80	80	53	20	-	260	<b>B. Inver. y Ser. Técnicos</b>	<b>11.52</b>	84	9	7
	Capacitación técnicos EDR's en metodologías participativas y promoción	15	46	46	31	12	-	150	<b>C. Servicios Financieros</b>	<b>3.20</b>	66	34	-
- Capacitación	Capacitación a Productores Innovadores (PRIN)	59	177	177	118	59	-	590	<b>D. Administra. y Gerencia</b>	<b>2.08</b>	95	5	-
	Capacitación a Técnicos UEP en	26	26	26	26	26	26	156	<b>COSTO TOTAL</b>	<b>19.00</b>	<b>83</b>	<b>13</b>	<b>4</b>
	<i>Coordinación de las actividades de capacitación (USD'000)</i>	55	21	21	21	21	21	161	<b>CATEGORÍAS</b>				
	<i>Contratos de servicios de Promoción (USD'000)</i>	70	220	220	150	70	-	730	<b>A. Vehículos y Equipos</b>	<b>0.44</b>	90	10	-
- Comunicación	<i>Información familias rurales de servicios y actividades del proyecto (USD'000)</i>	44	35	44	32	32	32	218	<b>B. Crédito</b>	<b>2.00</b>	50	50	-
- Enfoque de Género	<i>Garantizar equidad en el acceso a los servicios y beneficios (USD'000)</i>	17	17	17	17	17	17	101	<b>C. Infraestructura</b>	<b>4.38</b>	90	10	-
- Sub dirección	<i>Coordinar las actividades del componente y unidades locales (USD'000)</i>	209	131	131	131	131	131	866	<b>D.1. Asistencia Técnica</b>	<b>4.80</b>	80	10	10
<b>B. Inversiones y Servicios Técnicos</b>									<b>D.2. Estudios y Auditorías</b>	<b>3.17</b>	90	10	-
- Fondo de Inversiones Rurales	Mejoramiento y mantenimiento de caminos para la producción (km.)	-	20	50	70	50	10	200	<b>E. Salarios</b>	<b>3.01</b>	100	-	-
	Instalación y puesta en funcionamiento de sistemas de riego (Nro.)	-	15	20	30	20	15	100	<b>F. Costos de Operación</b>	<b>0.88</b>	86	14	-
	Reforestación de microcuencas (has.)	-	135	345	345	300	-	1,125	<b>G. Mant. Infraestructura</b>	<b>0.32</b>	-	-	100
	Establecimiento de barreras vivas (metros lineales '000)	-	684	1,710	1,710	1,596	-	5,700	<b>TOTAL</b>	<b>19.00</b>	<b>83</b>	<b>13</b>	<b>4</b>
	Transferencia de tecnología y capacitación a beneficiarios (grupos)	-	59	177	177	118	59	590	<b>TRANSFERENCIA A LOS BENEFICIARIOS</b>				
	<i>Ejecución FIR (inversiones, servicios y mantenimiento infraestructura) (USD'000)</i>	170	810	1,900	2,700	2,730	1,940	10,250	Directa	64%			
- Fortalecimiento de las EDR	<i>Mejorar la calidad y la eficiencia de la oferta de servicios técnicos (USD'000)</i>	50	25	25	25	25	25	177	USD (millones)	12.10			
- Sub dirección	<i>Coordinar las actividades del componente y unidades locales (USD'000)</i>	214	128	143	173	173	169	1,000					
<b>C. Servicios Financieros Comunitarios</b>									<b>BENEFICIOS DE LA PRODUCCIÓN AGROPECUARIA</b>				
	Incorporación IFL's (Nro.)	3	5	15	20	7		50	Incrementos en la producción (USD'000)			12,392	
	Beneficiarios de crédito agropecuario y microempresarial	400	1,000	1,200	1,100	700	400	4,800	Incrementos en las jornadas trabajadas (miles)			375	
- Fortalecimiento Institucional	<i>Fortalecimiento de las instituciones financieras (USD'000)</i>	101	83	142	179	70	35	609	Ingresos de las familias - año meta- (USD)			1,125	
- Fondo de Crédito	<i>Requerimientos netos del Fondo de Crédito</i>	140	420	520	450	310	160	2,000					
- Subdirección Servicios Financieros	<i>Coordinación, supervisión y control actividades del componente</i>	129	77	78	71	61	75	491					
<b>D. Administración y Gerencia</b>									<b>ANÁLISIS ECONÓMICO</b>				
	<i>Operativizar el sistema gerencial del proyecto (USD'000)</i>	311	232	262	287	283	258	1,633	<b>ESCENARIO</b>	<b>TIR</b>	<b>B/C</b>		
	<i>Seguimiento y Evaluación (USD'000)</i>	125	27	47	27	27	77	330	Base	14%	1.23		
	<i>Beneficios del Proyecto (Nro.)</i>	-	1,455	3,395	3,495	3,155	-	11,500	Benef. -10%	11%	1.11		
	<i>Total gastos anuales (sin incluir contingencias)</i>	1,634	2,226	3,552	4,263	3,950	2,941	18,565	Costos +10%	11%	1.12		
									Atraso Incorp. Benef. 2 años	10%	1.07		







### ORGANIZACIÓN Y ADMINISTRACIÓN





## ANÁLISIS FINANCIERO Y ECONÓMICO

### Cálculo de la Tasa Interna de Retorno (USD '000)

Años	Valor de los Beneficios Incrementales	Valor Inversiones	Costos Insumos	Costos de la Mano de Obra Familiar	Costos Totales del Proyecto	Costos Recurrentes Años 7-20	Beneficios Netos Incrementales
1	0	0	0	0	1,467	0	-1,467
2	219	72	108	74	1,716	0	-1,751
3	855	145	358	266	2,829	0	-2,742
4	1,749	217	608	472	3,533	0	-3,082
5	2,773	217	821	661	3,375	0	-2,300
6	3,523	109	844	690	2,604	0	-724
7	4,099	44	858	709	0	250	2,238
8	4,499	54	860	723	0	250	2,612
9	4,734	69	860	730	0	250	2,825
10	4,844	69	860	731	0	250	2,934
11	4,911	23	860	731	0	250	3,046
12	4,952	16	860	731	0	250	3,094
13	4,987	54	860	731	0	250	3,092
14	5,019	69	860	731	0	250	3,108
15	5,045	69	860	731	0	250	3,135
16	5,068	23	860	731	0	250	3,203
17	5,085	16	860	731	0	250	3,227
18	5,097	54	860	731	0	250	3,202
19	5,103	69	860	731	0	250	3,193
20	5,106	69	860	731	0	250	3,195
<b>Tasa Interna de Retorno</b>							14.1%
<b>Tasa de Actualización</b>							8.0%
<b>Valor Presente Neto</b>							5,918
<b>Relación Costo/Beneficio</b>							1.23
<b>Análisis de los Valores Críticos</b>							
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>Costo Total</b>
<b>VPN</b>	31,306	810	6,382	5,288	11,610	1,299	25,388
<b>COEF</b>	81.1%	830.8%	192.7%	211.9%	151.0%	555.7%	123.3%
<b>C-V</b>	-18.9%	730.8%	92.7%	111.9%	51.0%	455.7%	23.3%

### Sensibilidad de los Indicadores de Rentabilidad

	TIR	VPN (USD '000)	B/C
<b>1. Proyecto Pleno</b>	14.1%	5,918	1.23
<b>2. Reducción de Beneficios en:</b>			
	10%	2,788	1.11
	20%	-343	0.99
<b>3. Incremento de Costos en:</b>			
	10%	3,379	1.12
	20%	841	1.03
<b>4. Atrasos en</b>			
	1	3,839	1.14
	2	1,915	1.07
	3	131	1.00
<b>5. Proyecto con Mano Familiar a Precios de Mercado</b>	12.7%	4,596	1.17