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LAC-IEE-05-34

ENVIRONMENTAL THRESHOLD DECISION

<u>Activity Location:</u>	Honduras
<u>Activity Title:</u>	“Development Credit Authority, Loan Portfolio Guarantees (LPG)”
<u>Activity Number:</u>	522-0439
<u>Funding:</u>	\$277,600
<u>Life of Activity:</u>	FY2005 – 2012
<u>IEE Prepared by:</u>	Peter Hearne, MEO
<u>Date Prepared:</u>	August 29, 2005
<u>Recommended Threshold Decision:</u>	Categorical Exclusion and Negative Determination with Conditions
<u>Bureau Threshold Decision:</u>	Concurs with recommendation

Comments:

Pursuant to the following sections of 22 CFR 216.2(c)(2):

- (i) Education, technical assistance, or training programs except to the extent such programs include activities directly affecting the environment (**such as construction of facilities, etc.**);
- (iii) Analyses, studies, academic or research workshops and meetings;
- (v) Document and information transfers.

a **Categorical Exclusion** is issued to applicable DCA Loan activities involving the provision of technical assistance, facilitation of policy dialogue, and capacity building.

A Negative Determination with conditions is issued to the loan program itself, and the conditions laid out in the attached IEE are to be carried out including:

- Activities should be reviewed, on a case by case basis, to determine potential negative environmental impacts, proposing measures to mitigate them using the provisions of the “*LAC Bureau Environmental Guidelines*” – Chapter 2, for renovations and retrofitting associated with infrastructure modifications, Chapter 4 for Micro Enterprise activities and Chapter 7 for eco-tourism related activities along with other environmental “best practices”.
- In addition, where applicable, these activities should be in accordance with the environmental regulations and permitting processes of the host countries.
- The Cognizant Technical Officer (CTO) for this activity is responsible for making sure environmental conditions are met. It is the responsibility of the SO Team to ensure that activity-related SOAGs, MAARDs and contracting documents contain specific instructions reflecting this Environmental Threshold Decision, including the provision of (and any necessary training in the use of) the indicated LAC Environmental Guidelines for activities that have a Negative Determination with Conditions
- The CTO, in collaboration with Funcación COVELO and other major partners in the DCA Activity, will provide an annual report at the end of each fiscal year to the Mission Environmental Officer for approval with copies to the Regional Environmental Advisor and Bureau Environmental Officer. The report will summarize the environmental review procedures used (making any recommendations for changes or improvements), list all loans made under the program, summarizing their environmental review, applicable environmental guidelines and how they were implemented in conjunction with the loan.
- No loans will be made under this activity for the purchase or use of pesticides, without prior approval of a supplemental Initial Environmental Examination meeting USAID Pesticide Procedures [22CFR216.3(b)].
- Mission approval of each loan will include a review and concurrence by the Mission Environmental Officer to ensure that each activity is in compliance with 22 CFR 216.

_____ Date _____
Victor H. Bullen
Bureau Environmental Officer
Bureau for Latin America & the Caribbean

Copy to: Paul Tuebner, Mission Director, USAID/Honduras

Copy to: Sheila Young and Peter Hearne, MEO, USAID/
Jamaica

Copy to; Michael Donald, Regional Environmental Advisor,
USAID/Dominican Republic

Copy to: IEE File

Attachment: IEE

SUPPLEMENTAL INITIAL ENVIRONMENTAL EXAMINATION

Activity Location: Honduras

Activity Title: "Development Credit Authority, Loan Portfolio Guarantees (LPG)"

Activity Number: 522-0439

Funding: \$277,600

Life of Activity: FY2005 – 2012

IEE Prepared by: Peter Hearne, MEO

Date Prepared: August 29, 2005

Recommendation for Threshold Decision:

Based on the attached description, USAID/HONDURAS recommends a Categorical Exclusion and a Negative Determination with Conditions for this amendment to the program.

Concurrence: _____
Paul Tuebner
USAID/Honduras Mission Director

Mission Clearance:
SYoung, TEA _____
CSolis, SPS _____
JAnderson, A/DMD _____

Regional Environmental Advisor Clearance:
Bruce Bayle, REA _____

Activity Description

USAID/Honduras is amending the DCA Agreement with NGO Fundacion COVELO which will increase the Maximum Authorized Portfolio Amount from \$1.0 to \$3.0 million. This means that USAID will now insure 50% of the losses of a total loan portfolio of \$3.0 million. The Mission is obligating \$115,200 of new FY 2005 DCA funds as USAID's subsidy for this activity, which brings the total funding up to \$277,600 (the originally planned amount of \$350,000, as reported in LAC-IEE-03-06, was subsequently reduced).

This loan portfolio guarantee will continue to facilitate investment and support multi-sector lending to micro, small, and medium enterprises (MSMEs) to finance the following activities: specialty coffee, wood products, light manufacturing and non-traditional agricultural crops, and agro-industry. No agro-chemicals (fertilizers and pesticides) will be purchased or recommended. Participating MSMEs will benefit from increased access to credit to expand business operations, in order to meet the challenges of a global economy. Furthermore, the MSMEs will continue to receive institutional strengthening and technical assistance in local sales, export market opportunities, and value-added production practices, under the Mission's newly-initiated Rural Economic Diversification Program.

Under the DCA guarantee, COVELO will use its own funds for the loans. USAID funding will be in the form of a loan portfolio guarantee to the organization to cover specific, eligible DCA loans. The guarantee extended by USAID will be 50% of the principal amount of the total \$3 million loan portfolio. While the Mission does not have control over the activities chosen by the lending institution, the Mission will be required to approve each loan to ensure that they fall within the DCA eligibility guidelines.

Environmental Impact Determination

A Categorical Exclusion was originally issued for this activity in LAC-IEE-03-06, dated February 5, 2003. This same Threshold Decision is recommended here for the continuation of certain aspects of this activity, in accordance with 22 CFR 216, Paragraph 216.2(c)(2)(i), regarding programs of education, technical assistance or training, except to the extent such programs include activities directly affecting the environment, such as construction of facilities, etc.

A Negative Determination with Conditions is recommended for other aspects, such as those involving the promotion of non-traditional agricultural crops and development of agro-industry activities. These activities could involve changes in land-use practices or infrastructure modification, and thus the possibility exists that these activities may have a negative impact on the environment. The funds for these activities will be provided directly by the financial institution, COVELO; hence, USAID will not have direct control over the implementation of this program. However, the Mission will be required to approve each loan to ensure that they fall within the DCA eligibility guidelines. This places some responsibility on the Mission to ensure that each activity is compliant with 22 CFR 216, environmental regulations. To that end, Mission approval of each loan will include review and concurrence by the MEO.

If any new construction of facilities, or other action not included above and which has a potential negative impact on the environment is subsequently proposed, then another Supplemental IEE will be prepared.

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