



# Project Information Document (PID)

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Concept Stage | Date Prepared/Updated: 23-Dec-2020 | Report No: PIDC30751

**BASIC INFORMATION****A. Basic Project Data**

Country Honduras	Project ID P174328	Parent Project ID (if any)	Project Name Honduras - Innovation for Rural Competitiveness Project - COMRURAL III (P174328)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date Mar 19, 2021	Estimated Board Date Jun 25, 2021	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Republic of Honduras	Implementing Agency Secretariat of Agriculture and Livestock	

**Proposed Development Objective(s)**

To contribute to economic recovery, improved competitiveness and climate resilience of targeted beneficiaries in selected agricultural value chains.

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

<b>Total Project Cost</b>	160.00
<b>Total Financing</b>	160.00
<b>of which IBRD/IDA</b>	100.00
<b>Financing Gap</b>	0.00

**DETAILS****World Bank Group Financing**

International Development Association (IDA)	100.00
IDA Credit	100.00

**Non-World Bank Group Financing**

Commercial Financing	60.00
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Unguaranteed Commercial Financing	60.00
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Environmental and Social Risk Classification

Substantial

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

## B. Introduction and Context

### Country Context

- Over the past 30 years, Honduras has experienced modest, volatile economic growth and faces a series of structural challenges in achieving inclusive and sustainable economic development.** Real gross domestic product (GDP) has grown at an average annual rate of 3.8 percent over the past three decades, exceeding the Latin American and Caribbean (LAC) regional average of 2.6 percent and on par with the Central American average of 3.9 percent.<sup>1</sup> Yet, economic performance is impacted by one of the highest crime rates in the world,<sup>2</sup> exposure to natural hazards,<sup>3</sup> health disease outbreaks, and continuing governance and institutional weaknesses, negatively impacting the overall investment climate. This has led to volatile growth, high migration rates, and the limited ability of the Honduran economy to generate jobs.
- Modest economic growth was insufficient to reduce poverty, and Honduras remains the third-poorest country in the LAC region.** The annual per capita income of the 9.6 million inhabitants is US\$2,604 (2019).<sup>4</sup> Nearly one in six Hondurans (16.9 percent) lives on less than US\$1.90 per day (the International Poverty Line), one of the highest poverty rates in Latin America. The rural poor rely largely on low-productivity agricultural activities for income, have limited access to basic services, and are highly vulnerable to natural and macroeconomic shocks.
- Economic growth halted in the first half of 2020 due to domestic and external shocks amid the COVID-19 pandemic.** Real GDP declined by 9.9 percent (y/y) in the first half of 2020, down from 2.7 percent (y/y) growth in the first half of 2019, driven by an output contraction across all sectors, weakened export demand and investment, and prolonged suspension of business operations. In response to the pandemic, the Government adopted strict containment measures and enacted targeted policies to cushion their impact on economic activity and welfare. The economy was expected to begin recovery in 2021 amid the reactivation of domestic economic activity and recovering investment and external demand.
- The COVID-19 crisis has been exacerbated by the impacts of hurricanes Eta and Iota, which significantly**

<sup>1</sup> Central Bank of Honduras; World Development Index, and World Bank staff calculations, March 2020.

<sup>2</sup> According to the Ministry of the Interior of Honduras (2019), Secretaría de Seguridad de Honduras, crime and violence have been halved since 2012 as the number of homicides per 100,000 people decreased from 84 to 41 in 2017.

<sup>3</sup> According to the Global Climate Risk Index (German Watch), Honduras was the country most severely impacted by extreme weather events between 1996 and 2015, with annual average losses equivalent to 2.1 percent of GDP, affecting critical sectors such as agriculture, transportation, telecommunications, health, education, water, and sanitation.

<sup>4</sup> United Nations Population Division (UNPD) (<https://population.un.org/wpp/>) and Central Bank of Honduras (2019).



**damaged infrastructure, livelihoods, and crops.** Between November 1 and 18, 2020, two consecutive tropical cyclones, Eta and Iota, hit and damaged Honduras, with an impact magnitude comparable to 1998's Hurricane Mitch. The social and economic costs of hurricanes Eta and Iota are expected to be high, and disaster relief and recovery are further complicated by the pandemic. Preliminary estimates of the Government of Honduras (GoH) indicate that 4.6 million people are affected; 85,200 houses have been damaged, over 175,000 people have been evacuated; 285,600 farmers were affected (397,000 hectares); 927 roads (4,000 km) and 133 bridges have been damaged or destroyed<sup>5</sup>. The potential setbacks due to the COVID-19 crisis combined with the impact of hurricanes Eta and Iota could, if not addressed, imply a long-term hit to productivity, income growth and social cohesion.

### Sectoral and Institutional Context

- 5. The agri-food sector is one of the key pillars of the Honduran economy.** Agriculture is the main economic activity of more than 500,000 households. According to the Central Bank of Honduras, in 2018, the agriculture sector accounted for 12 percent of the country's GDP, a figure that increases to approximately 23 percent when considering the linkages with other sectors. The sector leads the national job market, providing a direct source of income to 30 percent of the labor force. These rates are considerably higher than the Central American regional average (7 percent and 19 percent for GDP and employment, respectively),<sup>6</sup> reflecting the country's high dependence on this sector's performance.
- 6. In rural areas, where about 44 percent of the population resides, most people depend on agriculture for their livelihoods.** More than half of the poor and two-thirds of the extreme poor live in rural areas, mostly concentrated in western and southern Honduras, known as the Dry Corridor.<sup>7</sup> Overall, an estimated 72 percent of Honduran rural families engage in subsistence farming and transitioning agriculture, also known as family farming. The contribution of family farming constitutes the basis of the national economy: it generates 56.5 percent of national agricultural production and 76 percent of rural employment.<sup>8</sup> Overall, these types of farming are characterized by low productivity and weak competitiveness, limited business organization, low revenue generation and poor quality of jobs, and high vulnerability to economic and climate shocks.
- 7. Significant and persistent barriers prevent Honduras from strengthening agricultural competitiveness and leveraging its agri-food export potential.** Agricultural productivity is low due to very limited access to technologies, inputs, human capital formation opportunities, and advisory services. The national agricultural research and adoption system is poorly funded and focused on traditional crops, while the extension system is largely ineffective. Agri-entrepreneurs have limited access to finance, mostly because of a lack of adequate regulations for specialized financial products for agriculture. Public services supporting agribusiness development need to be modernized. The lack of adequate agro-logistics is a critical barrier to improving agricultural competitiveness. Harnessing innovations in data and technology, such as information and communication technology and digitalization, as well as boosting human and institutional capital in promising agri-food value chains will be key to improving competitiveness, job generation, and the agribusiness environment.

<sup>5</sup> Evaluación preliminar de los daños ocasionados en el sector agroalimentario hondureño por las tormentas tropicales Eta e Iota, Secretaría de Agricultura y Ganadería, Gobierno de la República de Honduras (Diciembre 2020).

<sup>6</sup> World Bank Data Bank. Regional average includes data for Costa Rica, Dominican Republic, El Salvador, Guatemala, Nicaragua and Panama.

<sup>7</sup> The Honduran Dry Corridor covers 27.3 percent of the national territory and is characterized by severe cyclical drought related to El Niño. Also, due to land degradation in mountain slopes, the Dry Corridor is extremely vulnerable to the impact of heavy rains and tropical storms, which was the case during the recent hurricane Iota.

<sup>8</sup> Estrategia Nacional de Agricultura Familiar de Honduras (2017).



8. **Climate vulnerability, COVID-19 pandemic and extreme weather events are critical factors affecting sectoral performance, particularly for the poorest small-scale farmers, leading to high rates of food and nutrition insecurity across Honduras.** Preliminary estimates prepared by the Secretariat of Agriculture and Livestock (SAG) indicate that the sectoral damages caused by the COVID-19 crisis and aggravated by hurricanes Eta and Iota are estimated at US\$700 million. Small farmers and informal stakeholders in the sector have had limited ability to adapt and to implement the required biosecurity standards to reduce the spread of the pandemic. Restrictions on mobility and restricted capacity or temporary closures of sales points directly impact the producers' already-limited financial liquidity for the preparation of the next cropping cycle. In terms of food affordability, availability, and quality, Honduras is ranked 73<sup>rd</sup> amongst 113 countries in the 2019 Global Food Security Index (GFSI) of the Economist Intelligence Unit, which could further deteriorate due to the COVID-19 pandemic, hurricane Eta and Iota impacts.
9. **Transforming Honduras' rural economy following the COVID-19, Eta and Iota crises is critical.** Harnessing innovations in climate-smart and nutrition-smart modernization as well as boosting human, financial, and institutional capital in promising agri-food value chains will be critical for improving competitiveness, employment opportunities of farmers and agri-food entrepreneurs. The ongoing projects - Rural Competitiveness Project (COMRURAL, P101209) and the Integrating Innovation for Rural Competitiveness Project (COMRURAL II, P168385) - are the GoH flagship initiatives for promoting agricultural competitiveness which the proposed project plans to build on.

#### Relationship to CPF

10. **The project is in line with the World Bank Group (WBG) Honduras FY16-FY20 Country Partnership Framework (CPF).** The project will contribute to all three CPF focus areas (fostering inclusion, bolstering conditions for growth, and reducing vulnerabilities to enhance resilience) by supporting financial inclusion, human capital strengthening, technical assistance, and market access; improving the enabling conditions for agribusinesses; and reducing agricultural vulnerability to climate and other weather-related threats.
11. **The project is aligned with the IDA19 overarching theme, Ten Years to 2030: Growth, People, and Resilience, and with the Sustainable Development Goals.** The project will contribute to implementing several themes prioritized by the WBG: (i) Maximizing Finance for Development, (ii) climate change; (iii) gender; (iv) jobs and economic transformation; and, (v) governance and institutions, which present specific development challenges for Honduras.
12. **The proposed project is also aligned with WBG COVID-19 Crisis Response Approach Paper – Saving Lives, Scaling-Up Impact and Getting Back on Track.** Project investments will support activities in line with the objectives of Pillar 2: 'Protecting Poor and Vulnerable People.' Specifically, the operation will provide well-targeted support to poor and vulnerable groups, including improved access to finance for rural producer organizations, protecting livelihoods through training and job search support for agri-food workers, and investments targeted at rural agribusinesses. The project will also support activities in line with Pillar 4: 'Strengthening Policies, Institutions and Investments for Rebuilding Better' by strengthening public services and institutions in the agri-food system.

#### C. Proposed Development Objective(s)

13. To contribute to economic recovery, improved competitiveness and climate resilience of targeted beneficiaries in selected agricultural value chains.



#### Key Results (From PCN)

14. Achievement of the PDO will be measured through the following proposed indicators:
  - a. Beneficiaries reached with agricultural assets or services in the project-targeted value chains, disaggregated by gender, youth, Indigenous Peoples, and Afro-descendants (Number)
  - b. Beneficiaries adopting improved technologies promoted by the project, disaggregated by gender, youth, Indigenous Peoples, and Afro-descendants (Number)
  - c. Increase in the value of gross sales of the business plans approved in the first two years of project implementation (Percentage)
  - d. Full-time jobs created under investments initiatives financed by the project, disaggregated by gender, youth, Indigenous Peoples, and Afro-descendants (Number)

#### D. Concept Description

15. **The proposed project is an Investment Project Financing (IPF), comprising an IDA credit of US\$100 million that is expected to leverage US\$50 million in private commercial financing and US\$10 million in beneficiary contribution.** The total project cost is estimated to be US\$160 million. The proposed implementing agency is the Secretariat of Agriculture and Livestock (SAG).
16. **The project concept is based on turning the COVID-19, Eta and Iota crises into an opportunity to help “build back better” the national agri-food system<sup>9</sup> and transform the rural economy.** The project will contribute to the sector’s recovery while enhancing its competitiveness by helping create a new generation of investment opportunities in the agri-food system, where a mix of technological, digital, organizational, and financial innovations will promote a climate-smart and nutrition-smart economic transformation and sectoral modernization to help recover from the crises with better resilience and greater economic inclusion, more jobs and sustainable income for beneficiaries. The vehicle to deliver this support will be a commercially viable business plan (subproject) implemented as a productive alliance<sup>10</sup> centered on smallholder producers.
17. **The project concept is also based on the COMRURAL models’ well-established record of implementation in Honduras.** COMRURAL has accumulated more than 10 years of experience in promoting the development of the country's agri-food sector, with the active participation of the private financial sector to cofinance and maximize the impact of investments. COMRURAL II consolidates this agenda and promotes a graduation/development framework that reflects the way small farmers can transition from a stage in which they simply produce to subsist, to one that adds value to their products for commercialization in national and international markets, and progressively leverage private cofinancing.
18. **Beneficiaries: the proposed project is expected to directly benefit over 25,000 rural households (about 100,000 people) led by female or male farmers or agri-food entrepreneurs in Honduras.** The direct beneficiaries will participate in the project through the preparation of investment subprojects, preferably as part of a producer group, association, or cooperative. Other direct beneficiaries include public and private sector institutions and

<sup>9</sup> The concept builds on analytical work, evidence-based international good practices, and recommendations of the flagship report entitled Future Foodscapes: Reimagining Agriculture in Latin America and the Caribbean. The World Bank Group, 2020.

<sup>10</sup> Under COMRURAL, a productive alliance is a business relationship (alliance) between a rural producer organization (RPO), a technical assistance provider, a commercial financial institution, and an identified market or buyer. These parties enter a joint business plan to meet a market demand while improving productivity, value addition, market position, and sales on a benefit-sharing basis. The participation of buyers is critical to the productive alliance model, as buyers provide the market linkages and may continue to do so after project support has ceased.



their staff, as they play a primary role in facilitating and improving the agri-food system's performance: SAG, National Service for Agri-food Health and Safety (SENASA), Sanitary Regulation Agency (ARSA), private financial institutions, universities, schools, wholesalers, and aggregators, among others. The proposed project will also have indirect benefits for a much broader range of stakeholders in the agriculture sector through enhancing (i) the overall agriculture sector business environment by modernizing the public entities that provide services to those engaged in the agriculture sector (over 300 thousand families or nearly 1.5 million Hondurans); and (ii) the overall rural infrastructure within the prioritized territories.

19. **Geographic scope: the project will be national in scope.**<sup>11</sup> The institutional strengthening, human capital, and business climate-enhancing activities will have national coverage. Other project investments with national coverage, including subprojects and rural infrastructure and agro-logistics, will be identified through a geospatial approach, considering value chains and agribusiness initiatives by region.

**The PDO will be achieved through the following components:**

20. **Component 1: Enhancing competitiveness and resilience in prioritized value chains.** Component 1 will support competitive, innovative, and climate-resilient agribusiness initiatives (subprojects or business plans) in prioritized agri-food value chains under the productive alliance model. This component will finance: (i) works, goods, training, technical assistance, operational costs, and consulting and non-consulting services for the selection, preparation, and implementation of selected subprojects (business plans); (ii) matching grant incentives to cofinance subprojects for the adoption of innovative practices and technologies to improve productivity, food and nutrition security, market access, and climate resilience, with water management prioritized in the Corredor Seco subproject selection as a basic productive asset in promoting sustainable agribusiness; and (iii) climate-resilient and innovative complementary investments in small-scale agro-logistics services and infrastructure. The productive alliances fostered by the project will facilitate the participation and cofinancing of business plans by private financial institutions, addressing one of the main barriers to modernizing the country's value chains, following the Maximizing Finance for Development (MFD) approach.<sup>12</sup>
21. **Component 2: Improve rural infrastructure to access markets.** The objective of this component is to support the upgrading of rural public and community infrastructure to improve the connectivity, inflow of agri-inputs, access or production to markets, and resilience of productive alliances in prioritized territories and value chains. This component will finance works, goods, training, technical assistance, operational costs, and consulting and non-consulting services for the planning, design, and implementation of rural infrastructure improvements. The prioritization of rural infrastructure investments will have a territorial approach driven by the location and concentration of investments of Component 1.
22. **Component 3: Support the adoption of technologies for enabling the agribusiness environment.** This component will support the modernization and strengthening of selected public sector services, improving the agribusiness regulatory framework and public sector institutional capacity for enabling agribusiness competitiveness. This component will finance works, goods, training, technical assistance, operational costs, and consulting and non-consulting services. The direct beneficiaries of this component are public sector institutions, including SAG,

<sup>11</sup> The project area includes the departments of Santa Barbara, Copan, Ocotepeque, Lempira, Intibucá, La Paz, Comayagua, Francisco Morazán, El Paraíso, Choluteca, Cortés, Atlántida, Colon, Valle, Yoro, and Olancho.

<sup>12</sup> The MFD approach consists of activities that lead to increased sustainable private sector solutions—private finance (crowding-in) and/or private delivery—for development projects; and/or address binding constraints (e.g. physical, operational, regulatory or enabling environment) in a way that is expected to unlock private solutions where appropriate.



SENASA, ARSA, and selected public technical agricultural schools, among others to be assessed during preparation.

23. **Component 4: Project management support.** This component will finance overall project management, coordination, and implementation.

24. **Component 5: Contingency Emergency Response Component (CERC).** This component will provide for an immediate response to eligible emergencies. In the event of such an emergency (as defined in the CERC Operational Manual prepared and adopted by the GoH), this component will finance emergency activities and expenditures through the reallocation of funds from the project.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No
Summary of Screening of Environmental and Social Risks and Impacts	

The integrated Environmental and Social risk is considered Substantial. Both environmental and social risk is assessed as Substantial at concept stage due to: (i) some potentially significant risks associated with potential rehabilitation of rural roads, including possibly increasing accessibility to areas of natural habitat, potential affectations covered under ESS5 - Land Acquisition, Restrictions on Land Use and Involuntary Resettlement, exacerbation of local land tenure disputes, impact on community dynamics due to labor influx and involvement of community workers in areas difficult to supervise, as well as disruptions and traffic/road safety risks to workers, communities and road users; (ii) potential for investments to increase pesticide use; (iii) potential water balance issues associated with irrigation works; (iv) phytosanitary aspects of livestock production supported under the project; (v) vulnerability to climate-associated drought and flooding; (vi) the challenges of implementing projects with multiple and diverse indigenous groups dispersed nationally; (vii) implementation difficulties in remote and difficult to access areas that may overlap with high-crime areas, and; (viii) challenges related to establishing and adjusting to the new institutional arrangements for the project implementation unit.

While the project will have the institutional capacity and procedures in place to ensure environmental and social compliance, it will require some internal adjustments and new procedures to adapt to a new institutional arrangement under the overall guidance of the SAG, supported by a dedicated contracted team which will work to implement the project and mainstream implementation capacity within SAG. That may slow down start of implementation and need further support and training to apply, monitor and report the requirements of the environmental and social framework (ESF).

Prior to appraisal, the Borrower will develop, consult and disclose the following instruments drawing from the existing safeguard instruments already in place for COMRURAL and COMRURAL II and filling in gaps as necessary to meet ESF standards: (i) Environmental and Social Management Framework (ESMF); (ii) Resettlement Framework (RF); (iii) Stakeholder Engagement Plan (SEP) including project-level grievance redress mechanism (GRM); and (iv) Indigenous Peoples and Afro descendants Planning Framework (IPPF). Additionally, the Borrower will develop and disclose draft versions of: (i) Labor Management Procedures (LMP) with a dedicated GRM and (ii) Environmental and Social Commitment Plan (ESCP).



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