



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 09-Jun-2020 | Report No: PIDA29373

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

Country Guatemala	Project ID P173480	Project Name Responding to COVID-19: Modern and Resilient Agri-food Value Chains	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date 09-Jun-2020	Estimated Board Date 20-Aug-2020	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance Guatemala (MINFIN)	Implementing Agency Ministry of Economy Guatemala (MINECO)	

Proposed Development Objective(s)

The PDO is to contribute to reducing food losses, increasing adoption of climate resilient technologies and providing emergency response to COVID-19 to beneficiaries in select value chains

Components

Component 1: Emergency Response to COVID-19 impacts on agro-industrial economic activities
Component 2: Investments to Enhance MSMEs Efficiency and Resiliency
Component 3: Institutional strengthening in support of Guatemala's agri-food system
Component 4: Monitoring, Evaluation and Project Management
Component 5: Contingency Emergency Response (CERC)

The processing of this project is applying the policy requirements exceptions for situations of urgent need of assistance or capacity constraints that are outlined in OP 10.00, paragraph 12.

Yes

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

Total Project Cost	211.00
Total Financing	211.00
of which IBRD/IDA	150.00
Financing Gap	0.00

DETAILS



World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	150.00
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Non-World Bank Group Financing

Counterpart Funding	50.00
Local Beneficiaries	50.00
Other Sources	11.00
International Fund for Agriculture Development	11.00

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

- Despite a stable macroeconomic framework, Guatemala struggles with low rates of economic growth and high poverty compared to its neighbors.** Measured by per capita Gross Domestic Product (GDP), Guatemala is the fifth poorest economy of Latin America and the Caribbean (LAC) and remains one of the region's countries with the highest rates of social and economic exclusion. GDP growth averaged only 3.3 percent over 2015-2018, with real GDP per capita growth stagnating and falling behind its Central America peers over the same period. Guatemala's ability to provide basic public services and respond to changing conditions and demands is hampered by low collection of taxes by the Central Government (tax revenues are close to 10 percent of GDP) and highly rigid expenditures, as well as significant gaps in knowledge and job skills. For example, around two-thirds of Guatemalan children at late primary age today do not possess basic literacy skills.
- Poverty, inequality, and rurality are high and persistent.** Guatemala has one of the highest poverty rates in LAC, and deep inequality persist across various dimensions. In 2014, an estimated 60 percent of the total population of 17 million was estimated to live in poverty, up from 55 percent in 2000. Almost 80 percent of Indigenous people live in poverty (2014), and 50 percent live in extreme poverty. Income inequality is high, and the Gini coefficient rating stood at 0.49 in 2014. Vulnerability is particularly high among the Indigenous peoples, with almost 80 percent living in poverty in 2014, and half in extreme poverty. In 2017, about 48 percent of the total population was estimated to live in rural areas, where poverty is significantly higher (76 percent) than in urban areas (42 percent). Assessing more recent changes in poverty and inequality is difficult, due to the scarce availability of socio-economic data (Guatemala has had the second-lowest number of household surveys available in the region (after Haiti), in the period since 2000). However, qualitative evidence, available data and recent developments, do not point to progress on these metrics.
- Guatemala is among the highest rates in the Gender Inequality Index and has the lowest rate of female labor force participation in Latin America and the Caribbean.** Many indicators of women's economic opportunities have not improved since 2000 and are worse than the average in LAC and similar countries. Only 4 out of 10 women are in the labor force, less than half the corresponding rate of men. Similarly, female youth unemployment is almost twice that of men. Women are at a disadvantage with respect to their male counterparts also in terms of technical and soft skills, as well as business opportunities and access to information, technology, and markets for inputs and outputs – all of which translate into lower income levels. In terms of Gender-Based Violence (GBV), Guatemala registers one of the highest rates of violent deaths among women in the world: 6.4 in 100,000 in 2018, almost 5 times the global rate. An estimated 628 women lost their lives to violence in 2018, almost two deaths per day. Lack of education, inclusion, and gender inequality are among the most relevant triggers of GBV.
- Guatemala has the sixth highest rate of chronic malnutrition in the world and the highest in LAC, with Indigenous and rural populations disproportionately affected.** In 2019, Guatemala ranked 68th in food security out of 113 countries, with only 40 percent of Guatemalan families enjoying food security. Some 77 percent of families have a poor or inadequate diet, characterized by high consumption of cereals (maize) and low consumption of foods of animal origin, fruits, and vegetables. Chronic child malnutrition (stunting) is very high according to the World Health Organization (WHO), affecting 47 percent of all Guatemalan children under five, 58 percent of Indigenous children, and 66 percent of children in the lowest income quintile. On the opposite side of the spectrum, overweight and obesity are on the rise, affecting over 50 percent of the adult population.
- Guatemala is extremely affected by climate and weather events and its poorer populations are particularly vulnerable.** Guatemala is the ninth most at risk country worldwide from climate change. By 2050, economic losses



from drought, flooding, and other extreme weather events are projected to reduce GDP by between 1.3 percent and 3.7 percent. On the other hand, Guatemala's contribution to global Green House Gas (GHG) emissions is low compared to other countries: in 2011 the country emitted 3.4 tCO₂e/capita (half of the average per capita emissions of LAC). Agriculture is one of the strategic sectors for climate change mitigation and adaptation goals under Guatemala's Nationally Determined Contribution (NDC) to the United Nations Framework Convention on Climate Change (UNFCCC).

6. **On March 11, 2020, the WHO declared the novel coronavirus (COVID-19) outbreak a pandemic. and the impacts on Guatemala are expected to be severe.** The economic impacts of the disease outbreak are envisaged to lead to a significant decline in GDP in 2020, and the International Monetary Fund (IMF) has revised the country's economic growth projections for 2020 to negative 2 percent. Impacts are starting to be felt mainly through reductions in exports and tourism, and through reduced remittances (12 percent of GDP in 2018). The COVID-19 outbreak will have significant effects on the external accounts, inflation, and government balances, with expected higher financing needs and public deficit. On March 18, 2020, in preparation for the spread of COVID-19 in Guatemala, the Government launched the "National Program for Emergency and Economic Recovery" to respond to the crisis.

Sectoral and Institutional Context

7. **Agriculture plays a significant role in Guatemala's economic performance and employment.** Primary agriculture accounts for about 10 percent of the country's GDP with a significant multiplier when accounting for the full backward and forward linkages in the agri-food system and employs around 30 percent of the population. In 2015, the broader food sector represented 45 percent of the country's total merchandise exports. Secondary processing activities also create opportunities for job creation and diversification of local production. Market-linkage programs in the sub-sectors of vegetable and fruit preparation for exports have in some cases, proven particularly beneficial for small-scale organized producers.

8. **Limited market access and inefficient value addition/preservation capacity and lack of market information result in low productivity and variable sales and incomes, for Guatemala's micro, small and medium agro-industrial enterprises and small producers.** Within the domestic markets, smaller producers and SME agribusinesses face a number of challenges. Limited market transparency, lack of investment in on-farm and post-harvest technologies and other logistical market-access barriers lead to an abundance of middlemen, who capture a large portion of the value of any transaction. In addition, the quality of infrastructure varies greatly across Guatemala, which exacerbates regional income inequality, particularly between urban and rural areas. This also has severe impacts on access to agricultural markets, including contributing to high food losses (on-farm and throughout the VC and affecting food quality and safety).

9. **In particular, the Guatemalan agri-food sector faces the challenge of substantial post-harvest food losses, due to insufficient investment in storage facilities, limited market information and low uptake of good post-harvest practices.** According to the United Nations Environment Programme, 52,000 tons of post-harvest food is lost or wasted annually in Guatemala. More than 35 percent of beans and maize are spoiled due to poor harvest management, pests and animals, salmonella and aflatoxins. In addition, lack of information about market location and prices leads to high levels of food loss at the farm level and additional upstream loss in the value chain. Food Loss and Waste (FLW) also significantly contributes to GHG emissions

10. **To build toward its anti-poverty and growth potential as part of the new Government's "economic wall of opportunities," the agri-food system must improve significantly its productive and post-harvest efficiency while mitigating the deleterious impacts of the recent COVID-19 pandemic.** COVID-19 is expected to impact in



unprecedented ways the productivity and food security of producers and consumers within Guatemala's food systems, as well as agri-food exports. While the sector has clear potential for continued expansion and diversification in export and domestic markets, the urgent challenge related to COVID-19 threatens producers, agribusiness micro-, small- and medium-sized enterprises (MSMEs), other supply chain actors, markets, and domestic and international demand. To improve access to markets and build resilience in the system, especially given the current dual health and economic emergencies, the proposed Project offers an opportunity to make investments that contribute to strengthening and improving efficiency in productive and post-harvest capacity, and to promoting food safety, food quality, competitiveness and broader resilience considerations.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The project development objective (PDO) is to contribute to reducing food losses, increasing adoption of climate resilient technologies and providing emergency response to COVID-19 to beneficiaries in select value chains

Key Results

Reducing Food Losses	<ul style="list-style-type: none"> Reduction of food losses in selected value chains (as a percentage of total production) Reduction of products rejected due to food safety received by buyers in selected value chains (as a percentage share of baseline).
Increasing adoption of climate resilient technologies	<ul style="list-style-type: none"> Beneficiaries adopting improved agricultural technologies promoted by the Project to enhance climate resiliency, disaggregated by gender and ethnicity (number) Beneficiaries demonstrating an improvement in empowerment disaggregated by gender (IFAD core indicator) (percentage)¹
Providing emergency response to the Covid-19 pandemic	<ul style="list-style-type: none"> MSMES supported under MINECO's COVID-19 emergency response fund, disaggregated by gender - (number) Number of PFIs that use the guarantee fund (number)

D. Project Description

11. **The proposed Project will prioritize investments in select, strategic Value Chains (VCs) pre-identified by the Ministry of Economy (MINECO).** Project-supported beneficiaries will be eligible micro, small and medium agribusinesses and agro-industry, producers' associations, and producers' groups (hereinafter referred to as MSMEs).

12. **Component 1: Emergency Response to COVID-19 Impacts on Agro-industrial Economic Activities.** This component will invest in two strategic priority areas (i) Emergency relief to MSMEs through a MINECO partial guarantee fund, and (ii) Skills development for greater employability through training and an on-line labor-

¹ This is a survey-based index for measuring empowerment, agency, and inclusion of women in the agriculture sector. Developed jointly by the International Food Policy Research Institute (IFPRI), the Oxford Poverty and Human Development Initiative (OPHI), and thirteen partner projects in IFPRI's GAAP2 portfolio, Pro-WEAI is composed of twelve indicators of women's empowerment in agriculture: autonomy in income, self-efficacy, attitudes about domestic violence, input in productive decisions, ownership of land and other assets, access to and decisions on credit, control over use of income, work balance, visiting important locations, group membership, membership in influential groups, and respect among household members.



matching platform.

13. **Component 2: Investments to Enhance MSMEs Efficiency and Resiliency. This component will operate at a national level, focusing on subprojects in select, strategic VCs.** Eligible beneficiary MSMEs will receive financial support based on approved business plans to improve the quality of their productive processes through investments in post-harvest practices, including activities such as storage, agro-logistics, aggregation, and transformation of harvested products along the selected VCs. The Project will provide grants and beneficiaries will be expected to provide contributions. The grants will be provided by MINECO with both IFAD and World Bank resources.

14. **Component 3: Institutional strengthening in support of Guatemala's agri-food system. The objective of this component is to strengthen public sector institutions that are considered strategic in supporting the efficiency of the country's agri-food system.** It is divided into two sub-components: (i) improving public infrastructure to enhance SPS standards, food safety, food quality and traceability and (ii) institutional strengthening of key public sector institutions, including MINECO, MAGA, and National Quality System and INE.

15. **Component 4. Monitoring, Evaluation and Project Management.** This Component will finance the overall project management, monitoring, and implementation of Components 1 to 3.

16. **Component 5. Contingent Emergency Response Component (CERC).** The objective of this component is to support the Government's emergency response to disasters. This will be activated upon request of the Borrower, upon the official declaration of a national emergency.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

17. Whereas the environmental risk rating is assessed as moderate, the combined Environmental and Social risk rating is considered SUBSTANTIAL, particularly driven by contextual social factors and borrower's capacity: (i) the inherent challenges of implementing projects with multiple and diverse Indigenous groups with their own governance structures, languages and socio-cultural characteristics dispersed nationally; (ii) potential implementation of subprojects in remote and difficult to access areas due to inadequate and limited infrastructure, particularly during the rainy season, as well as potential overlapping with high crime and violence areas, creating challenges for providing technical support and effective monitoring; (iii) use of a guarantee scheme that triggers participation of financial intermediaries with no previous experience working with the World Bank; and, (iv) no existing institutional capacity in MINECO to develop and monitor Environmental and Social (E&S) instruments and no previous experience with the new areas covered by the Environmental and Social Framework.

18. Given that the exact scope and location of subprojects will be defined only during project implementation, based on demand and subject to the specific eligibility criteria, and because specific risks are unknown, the project has adopted a framework approach to environmental and social management. The framework approach and phased



preparation of E&S instruments is also required to accommodate project preparation with condensed procedures under paragraph 12 of the Investment Project Financing policy in response to the Covid-19 pandemic. The E&S instruments will be developed in two phases. The Government of Guatemala (GoG) will develop, consult with key stakeholders, and disclose prior to appraisal a draft Stakeholder Engagement Plan (SEP), including a project-level Grievance Redress Mechanism (GRM) and an Environmental and Social Commitment Plan (ESCP). Consultations for these instruments took place in the context of country-wide quarantine with strong mobility restrictions, following the recommendations set forth in the WB's Technical Note, avoiding in-person gatherings, and using virtual interactive meetings, emails, online surveys, WhatsApp and traditional telephone calls, when stakeholders did not have access to online channels or were not used to them. The results of these consultations have been documented in the draft SEP and integrated into the design of the project and the SEP.

19. The Borrower will also develop, consult with stakeholders and disclose within 30 days of effectiveness: an (i) Environmental and Social Management Framework (ESMF); (ii) Labor Management Procedures with a dedicated GRM for project workers; (iii) an Indigenous Peoples Planning Framework (IPPF); and, (vi) a final SEP, including a project-level GRM. The ESCP reflects the GoG's requirements to implement the above-mentioned instruments at the site-specific level and to complete periodic reporting to the Bank on its compliance. During implementation, as business plans are approved, Environmental and Social screenings will be carried out for each subproject. Environmental and Social Management Plans (ESMPs) covering environmental, social, health and safety (ESHS) issues, as well as Indigenous Peoples Plans (IPPs), will also be developed when applicable. All required construction phase mitigation, management and monitoring measures identified in the ESMF will be reflected in bidding and contracting documents.

20. The PIU will include dedicated environmental, social and gender specialists and will be responsible for complying with environmental and social commitments, supervising firms and contractors to ensure application of mitigation measures, monitoring implementation and reporting to the Bank and relevant national authorities. MINECO will submit semiannual implementation reports to the Bank, including a dedicated section on compliance with the environmental and social requirements set forth in the ESCP and specified in each of the E&S instruments developed for this Project.

E. Implementation

Institutional and Implementation Arrangements

21. **The Project will be implemented by MINECO.** MINECO is the entity in charge of formulating and executing consumer protection and competition promotion policies. Specifically, it formulates and executes policies for national and foreign investment, promotion of competitiveness, industrial and commercial development. In addition, by delegation of the President of the Republic, it is the entity in charge of carrying out the negotiations of bilateral and multilateral international trade agreements and treaties. It also proposes, in coordination with the other ministries and State agencies, the specifications and technical and quality standards of national production; and facilitates the competitive development of micro, MSMEs through the provision of financial services and business development. The Project will be headed by the Vice Ministry of Investment and Competition of MINECO and the National Program on Competitiveness (PRONACOM).

22. **As part of the support to the agriculture sector, MINECO will provide technical support and capacity building for the other key institution in the sector - the Ministry of Agriculture, Livestock and Food (MAGA).** Among its functions, MAGA is in charge of implementing the food and nutrition security policy, as well as promoting community organization through productive agricultural projects by means of extension services,



training, and technical assistance. In addition, it is responsible for generating, processing and disseminating geographic, cartographic, food security and risk management information to prevent and mitigate the effects caused by natural disasters. MAGA will receive technical support and capacity building through project activities.

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APPROVAL

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