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Report No: PAD4478

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF US\$ 100 MILLION

TO THE

REPUBLIC OF HONDURAS

FOR A

INNOVATION FOR RURAL COMPETITIVENESS PROJECT - COMRURAL III

May 24, 2021

Agriculture And Food Global Practice  
Latin America And Caribbean Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective May 13, 2021)

Currency Unit = Honduran Lempira

1 HNL = US\$ 0.040

US\$ 1 = HNL 24.96

## FISCAL YEAR

January 1 - December 31

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## ABBREVIATIONS AND ACRONYMS

AD	Afro-Descendants
AF	Additional Financing
ARSA	Sanitary Regulation Agency ( <i>Agencia de Regulación Sanitaria</i> )
B/C-R	Benefit-cost ratio
CERC	Contingency Emergency Response Component
COMRURAL	Honduras Rural Competitiveness Project
COMRURAL II	Integrating Innovation for Rural Competitiveness in Honduras Project
COMRURAL III	Innovation for Rural Competitiveness Project
CO2-eq	Carbon dioxide equivalent
CPF	Country Partnership Framework
CPSD	Country Private Sector Diagnostics
CSA	Climate Smart Agriculture
DA	Designated Account
DFIL	Disbursement and Financial Information Letter
ESCP	Environmental and Social Commitment Plan
ESF	Environmental and Social Framework
ESMF	Environmental and Social Management Framework
FLW	Food loss and waste
FM	Financial Management
FONGAC	Guarantee Fund for COMRURAL
GBV	Gender-based violence
GDP	Gross domestic product
GHG	Greenhouse gas
GoH	Government of Honduras
GRID	Green, Resilient, Inclusive Development
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
HCP	High carbon price
IDA	International Development Association
INVEST-H	Honduras Strategic Investment Office ( <i>Inversión Estratégica de Honduras</i> )
IPs	Indigenous Peoples
IPF	Investment Project Financing
IPPF	Indigenous Peoples Planning Framework
LAC	Latin America and Caribbean
LCP	Low carbon price
LMP	Labor Management Procedures
M&E	Monitoring and Evaluation
MFD	Mobilizing Finance for Development
NAC	National Agricultural Council
NACIS	National Agro-Climatic Information System
NPV	Net present value
PCM	Private Capital Mobilization
PDO	Project Development Objective
PEG	Government Strategic Plan ( <i>Plan Estratégico de Gobierno</i> )
PIU	Project Implementation Unit
PLR	Performance and Learning Review
POM	Project Operational Manual
PPSD	Project Procurement Strategy for Development

PROSASUR	Corredor Seco Food Security Project
PRO-WEAI	Project-level Women's Empowerment in Agriculture Index
PSDE	Entrepreneurship Development Service Provider ( <i>Proveedor de Servicios de Desarrollo Empresarial</i> )
RPO	Rural producer organization
SAG	Ministry of Agriculture and Livestock ( <i>Secretaría de Agricultura y Ganadería</i> )
SEA	Sexual exploitation and abuse
SENASA	National Service for Agri-food Health and Safety ( <i>Servicio Nacional de Sanidad e Inocuidad Agroalimentaria</i> )
SEP	Stakeholder Engagement Plan
SH	Sexual harassment
SIAFI/UEPEX	Integrated System for Financial Administration/Executing Units of External Projects ( <i>Sistema de Administración Financiera Integrada/Unidades Ejecutoras de Proyectos Externos</i> )
SIG	Management Information System ( <i>Sistema Integrado de Gestión</i> )
STEP	Systematic Tracking of Exchanges in Procurement
TA	Technical assistance
WB	World Bank
WBG	World Bank Group
y/y	Year on year



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## DATASHEET

BASIC INFORMATION				
Country(ies)	Project Name			
Honduras	Innovation for Rural Competitiveness Project - COMRURAL III			
Project ID	Financing Instrument	Environmental and Social Risk Classification		
P174328	Investment Project Financing	Substantial		
Financing & Implementation Modalities				
<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input checked="" type="checkbox"/> Contingent Emergency Response Component (CERC)			
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)			
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)			
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country			
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict			
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster			
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Enhanced Implementation Support (HEIS)			
Expected Approval Date	Expected Closing Date			
15-Jun-2021	15-Jun-2027			
Bank/IFC Collaboration				
No				
Proposed Development Objective(s)				
(i) To contribute to market access, adoption of climate-smart approaches, and job creation in support of project beneficiaries in selected agri-food value chains; and (ii) in case of an Eligible Crisis or Emergency, to respond effectively to it.				



## Components

Component Name	Cost (US\$, millions)
Enhancing Competitiveness and Resilience in Prioritized Value Chains	124.10
Strengthening Institutions for Improving the Agribusiness Environment	12.00
Project Management Support	10.00
Contingency Emergency Response Component (CERC)	0.00

## Organizations

Borrower:	Republic of Honduras
Implementing Agency:	Inversion Estrategica - Honduras (INVEST-H)

## PROJECT FINANCING DATA (US\$, Millions)

### SUMMARY

Total Project Cost	146.10
Total Financing	146.10
of which IBRD/IDA	100.00
Financing Gap	0.00

### DETAILS

#### World Bank Group Financing

International Development Association (IDA)	100.00
IDA Credit	100.00

#### Non-World Bank Group Financing

Counterpart Funding	18.10
Local Farmer Organizations	18.10
Commercial Financing	28.00
Unguaranteed Commercial Financing	28.00



## IDA Resources (in US\$, Millions)

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
Honduras	100.00	0.00	0.00	100.00
National PBA	100.00	0.00	0.00	100.00
<b>Total</b>	<b>100.00</b>	<b>0.00</b>	<b>0.00</b>	<b>100.00</b>

## Expected Disbursements (in US\$, Millions)

WB Fiscal Year	2021	2022	2023	2024	2025	2026	2027
Annual	0.00	0.00	9.57	19.91	31.31	26.91	12.30
Cumulative	0.00	0.00	9.57	29.49	60.79	87.70	100.00

## INSTITUTIONAL DATA

## Practice Area (Lead)

Agriculture and Food

## Contributing Practice Areas

## Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

## SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● Substantial



8. Stakeholders	● Moderate
9. Other	● Substantial
10. Overall	● Substantial

## COMPLIANCE

### Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes    [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes    [✓] No

### Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Relevant
Cultural Heritage	Relevant
Financial Intermediaries	Not Currently Relevant



**NOTE:** For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

## Legal Covenants

### Sections and Description

#### Schedule 2. Section I. A. 2.

No later than one hundred twenty (120) days after the Effective Date, and for purposes of implementing Part 2 of the Project, the Recipient, through INVEST-H, shall enter into a technical coordination agreement ("Inter-institutional Agreement") with each Relevant Entity; all under terms and conditions acceptable to the Association.

### Sections and Description

#### Schedule 2. Section I. A. 3.

No later than six (6) months after the Effective Date, the Recipient, through INVEST-H, shall hire as part of the PIU, and thereafter retain throughout Project implementation, two (2) Technical Liaisons, on terms and conditions acceptable to the Association, as further detailed in the Project Operational Manual.

### Sections and Description

#### Schedule 2. Section I.G. 1

For purposes of carrying out Part 1.(b) of the Project, the Recipient shall maintain throughout Project implementation, a credit guarantee fund satisfactory to the Association, set up with the Recipient's own resources with at least an amount equivalent to one million three hundred thousand Dollars (\$1,300,000), to be used exclusively to guarantee loans made by PFIs for Agribusiness Subprojects, all in accordance with the structure and procedures set forth in the Project Operational Manual.

### Sections and Description

The Recipient shall carry out the Project in accordance with the Implementation Arrangements set out in Section I, Schedule 2 of the Financing Agreement

### Sections and Description

#### Schedule 2. Section II. 1.

The Recipient, through INVEST-H, shall furnish to the Association each Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester.

## Conditions

Type	Financing source	Description
Effectiveness	IBRD/IDA	<p>Article V</p> <p>5.01. The Additional Conditions of Effectiveness consist of the following, namely, that the Project Operational Manual referred to in Section I.A.1 of Schedule 2 to this Agreement has been updated and adopted in a manner satisfactory to the Association.</p>



Type	Financing source	Description
Disbursement	IBRD/IDA	<p>Schedule 2. Section III. B. 1</p> <p>Notwithstanding the provisions of Part A above, no withdrawal shall be made:</p> <p class="list-item-l1">(a) for payments made prior to the Signature Date; or</p> <p class="list-item-l1">(b) for Emergency Expenditures under Category (3), unless and until all of the following conditions have been met in respect of said expenditures:</p> <p class="list-item-l2">(i) (A) the Recipient has determined that an Eligible Crisis or Emergency has occurred, and has furnished to the Association a request to withdraw Financing amounts under Category (3); and (B) the Association has agreed with such determination, accepted said request and notified the Recipient thereof; and</p> <p class="list-item-l2">(ii) the Recipient has adopted the CERC Manual and Emergency Action Plan, in form and substance acceptable to the Association.</p>



## I. STRATEGIC CONTEXT

### A. Country Context

1. **Economic growth and poverty reduction in Honduras have been held back by institutional challenges and vulnerability to external shocks.** Real gross domestic product (GDP) has grown at an average annual rate of 3.8 percent per year since 1990, exceeding the 2.6 percent average for Latin America and the Caribbean (LAC) and on par with the Central American average of 3.9 percent.<sup>1</sup> However, ineffective governance and institutions, one of the world's highest crime rates, and high exposure to climate change impacts including natural hazards<sup>2</sup> have discouraged investment and thwarted growth and job creation.
2. **Honduras remains one of the poorest countries in the LAC region.** The annual per capita income of the country's 9.9 million inhabitants is US\$2,340 (2020).<sup>3</sup> According to the most recent estimates (2019), issued before the outbreak of COVID-19 and tropical storms Eta and Iota, 49 percent of the Honduran population lived on less than US\$5.50 per day, the second highest poverty rate in LAC after Haiti, while 14.8 percent lived in extreme poverty, on less than US\$1.90 per day.<sup>4</sup> Poverty is deepest in rural areas and among Indigenous communities. The rural poor rely largely on low-productivity agricultural activities for income; they also lack basic services and remain highly vulnerable to natural and external shocks, including those exacerbated by climate change such as tropical storms. Rough estimates from Indigenous organizations indicate that over 70 percent of Indigenous Peoples (IPs) live in poverty. Economic vulnerability also varies by gender: in 2019, female labor force participation (52 percent) was far lower than male participation (86 percent), especially for women aged 15–24, and employed women generally receive lower average wages than employed men.<sup>5</sup>
3. **In 2020, the global pandemic, combined with tropical storms Eta and Iota, dealt severe blows to the Honduran economy, which contracted by 9 percent year-on-year.** Poverty in households under the US\$5.50 line is projected to have increased to 55.4 percent in 2020—an increase of more than 700,000 people.<sup>6</sup> World Bank High Frequency Phone Surveys in mid-2020 found that nearly 68 percent of households reported losing income and more than one-third reported food insecurity as a result of insufficient resources. Tropical storms Eta and Iota in late 2020 compounded the economic impacts of the pandemic, generating social and economic losses estimated at US\$1.8 billion (7.5 percent of 2020 GDP). In response to the economic shocks, the Government of Honduras (GoH) has enacted targeted policies to cushion the impacts on economic activity and welfare, authorizing new borrowing of up to US\$2.5 billion (10 percent of GDP) for 2020–21. However, real GDP is not expected to reach its pre-pandemic level until 2023, with agriculture projected to recover more slowly due to the severe damage to crops and land.<sup>7</sup>

### B. Sectoral and Institutional Context

4. **While the agri-food sector is a key pillar of the Honduran economy, rural areas are characterized by significant poverty and by food and nutrition insecurity.** Agriculture is the main economic activity of more than 500,000

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

<sup>2</sup> The Global Climate Risk Index (German Watch) ranks Honduras as the country that was 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, and water and sanitation.

<sup>3</sup> United Nations Population Division (UNPD) (<https://population.un.org/wpp/>) and Central Bank of Honduras (2019).

<sup>4</sup> World Bank (2019), Honduras Poverty and Equity Brief. April.

<sup>5</sup> Labor force participation rate, female (percent of female population aged 15+) (modeled ILO estimate) for 2019 (ILOSTAT database).

<sup>6</sup> World Bank (2021), Honduras Macro Poverty Outlook. April.

<sup>7</sup> The combined damage to the agricultural sector resulting from the pandemic and tropical storms is estimated by SAG at US\$2,013 million.



households, provides a direct source of income for 30 percent of the labor force, and accounts for 12 percent of GDP, rising to 23 percent when backward and forward linkages with other sectors are included.<sup>8</sup> These rates are considerably higher than the Central American regional average (7 percent of GDP and 19 percent of employment), even though the geography and topography of Honduras limit the area that is naturally suitable for agriculture to 29 percent, well below the Central American average of 45 percent. More than half of the poor and two-thirds of the extreme poor live in rural areas, notably in the Dry Corridor (*Corredor Seco*) of western and southern Honduras.<sup>9</sup> They are disproportionately affected by food and nutrition insecurity, as chronic malnutrition is about twice as common among children in rural areas (28.8 percent) compared to urban areas (14.6 percent), rising to 58 percent of children under age five in the Dry Corridor.<sup>10</sup>

**5. Climate change and other weather-related events present critical risks for agriculture and the welfare of farmers and it increases migratory pressures.** Honduras is one of the most vulnerable countries to climate change due to its high exposure to climate-related hazards (hurricanes, tropical storms, floods, droughts, and landslides). By 2050, average temperatures are projected to increase by 1.0–2.5°C, whereas annual rainfall is projected to decrease by 9–14 percent, which would intensify droughts and could reduce yields of key staple crops such as beans by 32 percent.<sup>11</sup> With less than 15 percent of cultivated land under irrigation (mostly on medium-scale and export-oriented farms), droughts pose a significant threat to the livelihoods of vulnerable farmers: the 2018 drought affected 1.3 million people and on average small-scale farmers lost about 80 percent of their production, causing an increase in food insecurity and driving farmers to migrate to other countries.<sup>12</sup> Climate change will also increase pest infestations in crops and heighten the frequency and severity of hurricanes, as already evidenced by tropical storms Eta and Iota in 2020. These climate effects are directly related to the worsening of food security in Honduras due to their devastation of agricultural resources. Looking forward, as these negative climate and weather impacts intensify, it will be essential to enhance climate resilience and adaptation by expanding climate-smart agriculture (CSA) and improving the use of water in agriculture, notably in the Dry Corridor.

**6. Around 72 percent of Honduran rural families, including most Indigenous Peoples (IPs) and Afro-Descendants (ADs), engage in subsistence farming and transitioning agriculture, with women playing a critical but often unrecognized role.** Family farming is not only the cornerstone of the national economy—it generates 56.5 percent of national agricultural production and 76 percent of rural employment<sup>13</sup>—it is also strategically important to national food and nutrition security. A portion of family farmers operates commercially oriented enterprises with some level of aggregation, capacity to add value through basic processing, and access to local markets. For the most part, however, family farming systems are characterized by low productivity and revenues, very limited competitiveness, relatively little organization and integration of producers and agribusiness, poor-quality employment, and high vulnerability to economic and climate shocks—all of which need to be addressed through an integrated approach that strengthens productivity, resilience, partnerships, and key public and private support services. Women make major contributions to family farming and commercial agricultural activities, yet they are not captured fully in official statistics or perceptions of “women’s work.” Female labor force participation in rural Honduras was estimated at 39 percent in 2015, compared

<sup>8</sup> Agri-food systems encompass the entire range of actors and processes involved in the production, aggregation, processing, distribution, consumption, and disposal of agricultural and food products from crop and livestock production, forestry, fisheries and aquaculture.

<sup>9</sup> The Honduran Dry Corridor covers 27.3 percent of the national territory and experiences severe cyclical drought related to El Niño. Land degradation on mountain slopes makes the Dry Corridor extremely vulnerable to the impact of heavy rains and tropical storms.

<sup>10</sup> Global Nutrition Report, *Honduras profile*. See <https://globalnutritionreport.org/>.

<sup>11</sup> Feeling the Heat: How Climate Change is driving extreme weather in the Global South and Recommendations for Action in Canada.

<sup>12</sup> The 2021 study *Honduras Migration: Climate Change, Violence, & Assistance* by Bermeo and Leblang from Duke University shows that decreases in precipitation are associated with increased migrant flows and that the magnitude of this effect increases with higher levels of violence.

<sup>13</sup> Government of Honduras, Ministry of Agriculture and Livestock (2017), “*Estrategia Nacional de Agricultura Familiar de Honduras*.” Tegucigalpa.



to 90 percent for men, although these statistics may reflect a tendency for women's contributions to be underreported and unrecognized.<sup>14</sup>

**7. Rural Honduras is also confronted by crime, violence, and the use of child labor.** Forty-seven percent of all homicides reported in 2020 occurred in rural areas, and youth gangs are present in rural areas close to the border with El Salvador.<sup>15</sup> In rural communities, especially in the Dry Corridor, youth are vulnerable to joining gangs or organized criminal groups, and gang violence often results in forcible displacement of farmers, land abandonment, extortion, and control of limited resources such as water. The International Labour Organisation found that, in 2018, 14 percent of all children under the age of 17 were active in the Honduran labor market, and 60 percent of them worked in the agricultural sector; in particular, 10 percent of children aged 5–14 engaged in work (half of them in agriculture), and 7.5 percent of children ages 7–14 combined work and school.<sup>16</sup> Child labor is observed especially in the production of melon, coffee, maize, and okra, as well as in fishing and harvesting of mollusks and shrimp. IPs and ADs children are more vulnerable to child labor.

**8. Aside from these socio-economic dynamics, several specific barriers block progress toward a modern, competitive agri-food system that offers good prospects for a range of producers, workers, agribusinesses, and private investors.** First, the system faces governance challenges: (i) the policy framework (*State Policy for the Agricultural Sector and Rural Areas 2004-2021* and *Plan Honduras 2020*) will expire shortly; and (ii) there is limited capacity in agri-food health and safety and in sanitary regulations for agriculture, which are overseen by the National Service for Agri-food Health and Safety (SENASA) and the Sanitary Regulation Agency (ARSA). Second, severe financing gaps persist: (i) the Ministry of Agriculture and Livestock (SAG) receives only 0.7 percent of the national budget, most of which is transferred by law to other sector institutions); (ii) agricultural research and development represent only 0.17 percent of agricultural GDP, the lowest in LAC;<sup>17</sup> and (iii) agri-food actors suffer from limited access to finance: less than 4 percent of all bank credit flows to agriculture<sup>18</sup> and only 10 percent of the rural population (primarily large agricultural producers and exporters) borrows from a financial institution, due to smallholders' limited financial and business planning skills, high operational costs to banks, covariant risks, and the lack of a credit history or acceptable collateral, coupled with underdeveloped value-chain finance instruments such as buyer or input-supplier credits or guarantees. Third, these challenges are compounded by operational roadblocks, including: (i) lack of critical data to support public and private investments in the sector, such as agricultural price or agro-climatic data; (ii) weaknesses in the agricultural extension system; and (iii) weak and/or incomplete agro-logistics services, inability to comply with food quality and safety standards, and inadequate facilities (including cold-chain facilities) for collecting, aggregating, and storing products. Moreover, these barriers continue to constrain the sector in a context that has been drastically altered by the pandemic and by tropical storms Eta and Iota, which affected 72 percent of cropped area, at a cost to Honduras estimated at US\$2,013 million.<sup>19</sup>

**9. These barriers are not insurmountable, however, and in one important domain—agri-food exports—Honduras has taken consistent measures to overcome them.** The GoH has steadily pursued a strategy of opening new or niche agricultural markets. Honduras joined the World Trade Organization in 1995 and has diversified its export basket through several major trade agreements. Remaining challenges include moving beyond the marginal transformation of agri-food

<sup>14</sup> World Bank (2020), "She Helps Me All the Time: Underestimating Women's Economic Engagement in Rural Honduras".

<sup>15</sup> Insight Crime (2021), Country Profile – Honduras.

<sup>16</sup> International Labour Organisation: Analysis of Child Economic Activity and School Attendance Statistics using data from *Encuesta Permanente de Hogares de Propósitos Múltiples* (2018), as cited in the *2019 Findings on the Worst Forms of Child Labor* report of the US Department of Labor.

<sup>17</sup> International Food Policy Research Institute, Agricultural Science and Technology Indicators.

<sup>18</sup> World Economic Forum (2019), *The Global Competitiveness Report 2019*. Geneva.

<sup>19</sup> Honduras Ministry of Agriculture (2020).



exports and promoting value-added initiatives that will create jobs, while ensuring that smallholders and their organizations can tap into emerging market opportunities.

**10. The Rural Competitiveness Program (COMRURAL) constitutes the GoH's flagship initiative for enhancing rural productivity, incomes, and competitiveness and promoting agricultural exports.** COMRURAL is supported by a series of projects, financed by the World Bank Group (WBG): COMURAL (P101209, US\$23 million, approved in 2008), COMRURAL Additional Financing (AF - P158086, US\$48 million, approved in 2017), and COMRURAL II (P168385, US\$75 million, approved in 2019). COMRURAL has helped increase productivity and competitiveness of small-scale producer organizations by facilitating their engagement in productive alliances,<sup>20</sup> and is recognized throughout Honduras for its success in linking smallholder farmers to domestic and international markets. Since 2008, COMRURAL has supported around 12,880 small rural producer families (50,800 individuals) with improved technical capacity, market access, and financial inclusion, leveraging US\$26 million in co-financing by the private financial sector and raising the ratio of Private Capital Mobilization from 0.9 to 1.23. The proposed Project is expected to continue building strong partnerships with private financial institutions in Honduras (and, when applicable, with commercially-oriented public credit institutions), including commercial banks, which have signed Memoranda of Understanding (MoUs) with COMRURAL.<sup>21</sup> The *Corredor Seco* Food Security Project (PROSASUR, P148737, US\$30 million grant) complements the COMRURAL series by focusing on food and nutrition security for small farmers in the Dry Corridor.

**11. COMRURAL II already introduced several design enhancements to the Program that set the stage for further advances of the model.** These include: expanding coverage from 7 to 13 departments in Honduras to reach 18,000 beneficiaries with business plans; introducing a graduation scheme of three grant windows to help farmers graduate from subsistence agriculture to transitioning agriculture and then to commercially-oriented agriculture; setting targets for participation by youth aged 18–30, women, IPs, and ADs; prioritizing CSA approaches and water resource management initiatives to improve climate resilience; and strengthening support for investments in agro-logistics, private sector financing for agribusiness development, and critical public services.

**12. The proposed COMRURAL III is expected to continue contributing to the broad rural socio-economic agenda of the GoH.** Additionally, as part of its emergency response to hurricanes Eta and Iota, the GoH requested the activation of the Contingent Emergency Response Component (CERC) from COMRURAL II, with a reallocation of approximately US\$21 million (out of total IDA financing of US\$75 million) to support recovery activities in the sector. As set, COMRURAL III will support priorities that cannot be fully covered under the ongoing COMRURAL II due to the activation of the CERC;<sup>22</sup> expand program coverage nationally; add priority value chains for GoH; deepen support to the most vulnerable groups and areas, including support for climate resilience; and further strengthen private and public agricultural services.

## C. Relevance to Higher Level Objectives

**13. The proposed Project is aligned with the WBG Honduras Country Partnership Framework (CPF) FY16–FY20, discussed by the World Bank Board of Executive Directors on December 15, 2015 and the Performance and Learning**

<sup>20</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 pursue a joint business plan to meet a market demand while improving productivity, value addition, market position, and sales on a benefit-sharing basis. Buyers’ participation is critical to the productive alliance model, as buyers provide the market linkages and may continue to do so after project support has ceased.

<sup>21</sup> The MoUs foster coordination with commercial banks to facilitate access to credit and continue building confidence and business relationships between RPOs and commercial banks. This relationship is closely correlated to the size, soundness, and financial capacity of the commercial allies of the RPOs, which are perceived by the banks as the RPOs' financial guarantee.

<sup>22</sup> These include reduced financing for business plans for subsistence agriculture and commercially-oriented agriculture, as well as for support to ARSA and SENASA. These activities are picked up under Components 1 and 2 COMRURAL III (see project description).



**Review (PLR) of the CPF for the same period considered on July 9, 2019.**<sup>23</sup> Specifically, COMRURAL III will contribute to all three CPF focus areas (fostering inclusion, bolstering conditions for growth, and reducing vulnerabilities to enhance resilience) by: (i) supporting financial inclusion, human capital strengthening, and market access; (ii) improving the enabling conditions for agribusiness; and (iii) reducing the agricultural sector's vulnerability to climate and other weather-related threats. COMRURAL III is also aligned with the Honduras Country Private Sector Diagnostic (CPSD) 2021, which identified agriculture as one of the top four sectors with untapped productive potential and influence over development outcomes. The proposed Project is expected to reduce key constraints to growth and diversification as identified in the CPSD (lack of access to quality inputs, financing, infrastructure, knowledge, logistics, and food quality and safety verification) and promote a long-term vision for the sector under the leadership of SAG, as well as closer cooperation among public-sector stakeholders and between producers and the public sector.

**14. COMRURAL III is part of the GoH's long-term agenda to develop and modernize the rural and agri-food economy through the COMRURAL project series and to promote effective climate change mitigation and adaptation through its Nationally Determined Contribution.** Since 2008, the GoH has been relying on productive alliances and enhanced private financing for agribusiness to create inclusive job opportunities and mainstream resilient climate-smart approaches. Adaptation in the agricultural sector is a key area of the Honduran Nationally Determined Contribution, especially with regard to disaster risk management, management of natural resources, adaptation to climate change, food and nutrition security, and sustainable rural development.

**15. The proposed Project is consistent with thematic priorities of the WBG and its framework for Green, Resilient, Inclusive Development (GRID).**<sup>24</sup> The Project's emphasis on developing a competitive, resilient agri-food system reflects the overarching theme of IDA19 (Ten Years to 2030: Growth, People, and Resilience). With respect to the GRID framework, the proposed Project will invest in agricultural value chains and producer associations throughout the country, which will also contribute to mainstreaming climate-smart practices, creating green jobs in Honduran agri-food value chains, and supporting farmers to increase their adaptive capacity and resilience to climate change impacts. The Project will contribute to inclusion by targeting subsistence farmers and small and medium agribusinesses, promoting financial inclusion, and ensuring participation by historically disadvantaged groups such as IPs, ADs, women, youth, and persons with disabilities. Finally, the Project will revolve around the creation of a strengthened agri-food environment, which can both support recovery from the emergencies arising from the pandemic and tropical storms, and promote resilience should similar events arise in the future.

**16. Investments under the proposed Project are also aligned with the WBG COVID-19 Crisis Response Approach.**<sup>25</sup> They will contribute to the objectives of Pillar 2 (Protecting Poor and Vulnerable People) by providing well-targeted support to poor and vulnerable groups, including rural producer organizations (RPOs) and agribusinesses, to improve the productivity and resilience of their operations. They will also support the objectives of Pillar 4 (Strengthening Policies, Institutions, and Investments for Rebuilding Better) through activities to strengthen institutional capacity and the delivery of public services in the agri-food system.

## II. PROJECT DESCRIPTION

### A. Project Development Objective

<sup>23</sup> CPF Report number 98367, PLR Report Number 136491.

<sup>24</sup> World Bank Group (2021). *From COVID-19 Crisis Response to Resilient Recovery - Saving Lives and Livelihoods while Supporting Green, Resilient and Inclusive Development (GRID)*.

<sup>25</sup> World Bank Group (2020). *World Bank Group COVID-19 Crisis Response Approach Paper: Saving Lives, Scaling-Up Impact and Getting Back on Track*. Washington, DC. Annex 7 details WB country program adjustments in response to COVID-19.



17. The PDO is (i) to contribute to market access, adoption of climate-smart approaches, and job creation in support of project beneficiaries in selected agri-food value chains; and (ii) in case of an Eligible Crisis or Emergency, to respond effectively to it.
18. Achievement of the PDO will be measured through the following indicators:
- Increase in the value of gross sales of approved business plans from the second year of project execution (percent).
  - Beneficiaries adopting improved technologies promoted by the Project to enhance climate resilience, disaggregated by gender, youth, IPs/ADs (number).
  - Additional individuals working under investment initiatives financed by the Project, disaggregated by gender, youth, IPs/ADs (number).

## B. Project Components

19. **The proposed Project is an Investment Project Financing (IPF), comprising an IDA credit of US\$100 million** that is expected to leverage US\$28 million in private commercial financing and US\$18.1 million in beneficiary contributions, for an estimated total of US\$146.1 million (Table 1, see Annex 3 for cost disaggregation by subcomponent). The proposed Project will be implemented over a six-year period.

**Table 1. Estimated Project Cost by Component and Source of Finance**

Component	IDA Credit	Private commercial finance and micro-finance	Beneficiary contributions (in-kind or cash)	Total
		US\$ million		
1 Enhancing Competitiveness and Resilience in Prioritized Value Chains	78.0	28.0	18.1	124.1
2 Strengthening Institutions for Improving the Agribusiness Environment	12.0	-	-	12.0
3 Project Management Support	10.0	-	-	10.0
4 Contingency Emergency Response Component (CERC)	0	-	-	-
<b>Total</b>	<b>100.0</b>	<b>28</b>	<b>18.1</b>	<b>146.1</b>

20. **COMRURAL III seeks to turn the crisis precipitated by COVID-19, Eta, and Iota into an opportunity for the national agri-food system to “build forward better.”** The Project will contribute to the agri-food system’s recovery while enhancing its competitiveness and climate resilience. Investments under the proposed Project will feature a mix of technological, digital, organizational, and financial innovations to promote: (i) climate-smart, nutrition-smart economic transformation; (ii) a modern, competitive agri-food system; and (iii) a more resilient agricultural sector, with greater economic inclusion and better capacity to create jobs and sustainable incomes. The Project will be national in scope, bringing COMRURAL’s coverage to 16 departments, and will target selected value chains prioritized by GoH.<sup>26</sup> The Project

<sup>26</sup> The project area includes 16 out of 18 departments: Atlántida, Choluteca, Colón, Comayagua, Copán, Cortés, El Paraíso, Francisco Morazán, Intibucá, La Paz, Lempira, Ocotepeque, Olancho, Santa Bárbara, Valle, and Yoro. The value chains covered under the ongoing COMRURAL operations include specialty coffee, horticulture, fruit, livestock (beef and dairy cattle), grains, cacao, cultural products, and aquaculture, among others.



will be actively promoted among targeted beneficiaries and in territories and value chains beyond previous COMRURAL operations, and in areas with high outmigration to provide job opportunities to rural producers, especially young workers, IPs/ADs, and women.

**21. COMRURAL III builds on successive iterations of the well-established COMRURAL model in Honduras.** As such, the Project will scale up and expand the “productive alliance” model to ensure national coverage, adding more agri-food value chains designated as priorities by GoH. The Project will continue to apply the graduation framework from subsistence to transitioning to commercial agriculture, while adding a new investment window for small agro-logistics and private agricultural services. The Project will also continue to strengthen key public services to improve the agribusiness environment, deepen financial sector participation, and bolster a network of services to unlock Honduras’ agribusiness potential. COMRURAL III will complement efforts to promote CSA with a new emphasis on nutrition-smart initiatives, job creation (including in locales experiencing significant outmigration), and adoption of digital technologies.

**Component 1: Enhancing Competitiveness and Resilience in Prioritized Value Chains (US\$124.1 million, of which IDA: US\$78 million; commercial financing: US\$28 million; beneficiary contributions: US\$18.1 million)**

**22. Component 1 supports competitive, innovative, climate-resilient,<sup>27</sup> and nutrition-smart agribusiness initiatives (subprojects or business plans) in prioritized agri-food value chains under the productive alliance model.** Activities under Component 1 will be supported via two subcomponents:

**23. Subcomponent 1.1: Pre-investment for preparing subprojects** will support pre-investment activities for project promotion, business plan identification, capacity building, communication strategies, outreach to small subsistence farmers, IPs, ADs, women, youth, and persons with disabilities. The subcomponent will finance works, goods (including energy-efficiency equipment), training, technical assistance, operational costs, and consulting and non-consulting services for the selection and preparation of selected investment subprojects (business plans) for competitive, innovative, climate-resilient, and nutrition-smart agribusiness initiatives (see Annex 2 for details).

**24. Subcomponent 1.2: Productive investments in the implementation of subprojects** will provide matching grants to finance business plans (“agricultural subprojects” or “agribusiness subprojects”, depending on the level of organization of the proposing RPO) selected under Subcomponent 1.1. Subproject investments will promote climate-smart, nutrition-smart approaches to enhance natural resource-use efficiency, reduce greenhouse gas (GHG) emissions, and promote climate adaptation, mitigation, and resilience of key agri-food value chains at the production, processing, and post-harvest stages, with special emphasis on water management subprojects in the Dry Corridor to promote adaptation to climate change impacts (including droughts). Matching grants will also finance climate-resilient and innovative complementary investments in small-scale agro-logistics services and minor infrastructure. The grants will support the implementation of subprojects and provision of technical assistance to achieve these goals, and will cover the portion of the business plans devoted to fixed capital (such as equipment and minor infrastructure), working capital, technical assistance expenditures, and other investments to support improved productivity, processing capacities, agro-logistics, marketing, and sales. The productive alliances will facilitate the participation of non-bank value-chain financiers<sup>28</sup> and co-financing of business plans by private financial institutions (and, when applicable, commercially-oriented public credit institutions), following the Private Capital Mobilization (PCM) approach within the Mobilizing

<sup>27</sup> Specific details on climate mitigation and adaptation activities supported by Component 1 are provided in Annex 2, including specific to Windows for subprojects. Sub-components 1.1 and 1.2 collectively contribute to the implementation of these activities. The expected impacts of these activities are included in Annex 6.

<sup>28</sup> For new, smaller endeavors that cannot yet obtain formal financing from banks or micro-credit organizations, business plans that include equipment suppliers or produce buyers as alternative sources of financing (via purchasing arrangements or guarantees) can help small producers build a credit record.



Finance for Development (MFD) agenda of the WBG. The Project will coordinate with the Guarantee Fund (FONGAC) established under the ongoing COMRURAL for the provision of partial credit guarantees, to provide financial institutions with incentives for co-financing implementation of approved business plans. The subcomponent will finance works, goods (including energy-efficiency equipment), training, technical assistance, operational costs, consulting and non-consulting services, and grants (see Annex 2 for details).

**25. The proposed Project will strengthen economic inclusion through four windows with different target beneficiaries and different shares of matching grant financing.** The windows will finance subprojects for (i) subsistence agriculture; (ii) transitional agriculture; (iii) commercially-oriented agriculture; (iv) small agro-logistics and agricultural services (see Annex 2). Subprojects will be selected via a demand-driven, transparent mechanism that ensures compliance with technical, financial, social, and environmental parameters detailed in the Project Operational Manual (POM).

### **Component 2: Strengthening Institutions for Improving the Agribusiness Environment (US\$12 million, IDA)**

**26. Component 2 will support the modernization and strengthening of selected public services by improving the regulatory framework for agribusiness and the capacity of public sector institutions to promote a competitive agribusiness sector.** This component will enable the smooth functioning of business plans financed under Component 1 by ensuring that those plans can comply with the certifications, environmental licensing, and food safety standards necessary to conduct their activities. The component is structured into two subcomponents, which will both finance works, goods,<sup>29</sup> training, technical assistance, operational costs, and consulting and non-consulting services:

**27. Subcomponent 2.1: Improving selected public agribusiness services** aims to improve the agribusiness enabling environment via support to SENASA and ARSA, the main institutions providing public services for agribusiness.<sup>30</sup> This support will improve RPOs' product quality, market access, and returns over time, as quality and consistency standards improve. Specific activities financed by the subcomponent are listed in Annex 2.

**28. Subcomponent 2.2: Improving public-private coordination of policies for agribusiness** seeks to enhance cooperation between the public and private sector to develop policies, regulations, and information to improve the enabling environment for agribusiness. It will facilitate the investments required to strengthen the governance and operations of SAG and to enhance information systems on agriculture, agribusiness, and rural economies, including their climate resilience and mitigation, to inform practices and policies. Specific activities financed by the subcomponent are listed in Annex 2.

### **Component 3: Project Management Support (US\$10 million, IDA)**

**29.** Component 3 will finance goods including energy-efficient equipment, training, operational costs, and consulting and non-consulting services for project management, coordination, and implementation, including: (i) project management and coordination, including training for project staff on technical issues (such as CSA and energy-efficiency approaches to improve climate change adaptation and mitigation) as well as on social, environmental, and fiduciary issues; (ii) monitoring, evaluation, and impact assessment of project activities, including periodic beneficiary satisfaction surveys and an impact evaluation of the COMRURAL on market access, climate change adaptation and mitigation, and livelihoods among project beneficiaries, thus deriving lessons learned for enhanced future policy-making; (iii) fiduciary costs, including audits; (iv) implementation, monitoring, and reporting of the Environmental and Social Management

<sup>29</sup> Equipment will be energy efficient and works will be climate resilient to ensure continuity during and after climate induced events.

<sup>30</sup> Other institutions may also be supported under the Project, as identified during project implementation.



Framework (ESMF) and safeguard instruments; (v) a citizen engagement mechanism; and (vi) studies and assessments to identify actions for agro-industrial transformation and for the promotion of climate change adaptation and mitigation.

#### **Component 4: Contingency Emergency Response Component (CERC) (US\$0 million)**

30. Component 4 will finance eligible expenditures in the event of a national emergency, according to criteria detailed in a Contingency Emergency Response Operational Manual prepared and adopted by GoH, with prior approval of the Bank.

#### **Key Considerations in the Project Design**

31. **Climate and disaster risk screening, climate co-benefits, and GHG accounting.** A climate change and disaster risk screening for COMRURAL III rated its risk as *High*, because it will operate in areas with a high probability of experiencing climate and/or geophysical hazards such as droughts, tropical storms, extreme precipitation, floods, and winds, which might damage or destroy physical infrastructure and other assets, including storage and processing equipment, irrigation systems, and rural roads. A project-level Climate Vulnerability Assessment will identify specific adaptation and mitigation measures, as specified in the ESMF. Project investments will address these vulnerabilities, increase the climate resilience of key agri-food value chains, and generate important climate co-benefits (Annex 6) by: (i) incorporating on-farm irrigation technologies and watershed management practices to improve water-use efficiency (adapting to drought impacts); (ii) promoting the adoption of climate-smart practices and of techniques to reduce food loss and waste (FLW) (Annex 2); and (iii) reducing GHG emissions. The Results Framework includes several climate-related indicators. The ex-ante GHG analysis indicates that over a 20-year period, the Project would constitute a net carbon sink of 2,661,520 tons of carbon dioxide equivalent (tCO<sub>2</sub>eq), equivalent to 133,076 tCO<sub>2</sub>eq per year and 14 tCO<sub>2</sub>eq/ha/year.

32. **Mobilizing Finance for Development (MFD).** The proposed Project will incorporate the MFD approach by crowding-in private sector financing for subproject investments. The IDA credit of US\$41 million allocated for Windows 2 and 3 under Component 1 (cf. Annex 3) is expected to leverage an additional estimated US\$28 million in private commercial finance (in addition to US\$11.83 million in projected contributions from beneficiaries). Private capital will be mobilized by ensuring that agricultural and agribusiness subprojects are technically and commercially feasible per the requirements of the private co-financiers, and through MoUs with financial institutions (see Annex 2 for details). The development of agricultural services and of strategic alliances with the private sector will improve agro-logistics and increase access to bank credit and value-chain finance. The Project will invest in strategic institutional and policy measures to improve the agribusiness enabling environment and public sector capacity to attract and leverage private finance.

33. **Citizen engagement.** The proposed Project is designed around citizen engagement and participation. It will benefit from the feedback of beneficiaries and relevant stakeholders throughout implementation, as foreseen in the Stakeholder Engagement Plan (SEP). The SEP describes key milestones and effective channels to share information; the participation of stakeholders in developing business plans; and actions to facilitate the participation of vulnerable stakeholders (women, rural youth, IPs, ADs, persons with disabilities), whose feedback will lead to adjustments in implementation. The development of business plans is a participatory process led by each RPO, in which RPO members play an active role in co-designing solutions for their business challenges. The Project's Result Framework includes indicators to measure the extent of beneficiary feedback and grievance redress.

34. **Gender.** A Gender Gap Assessment and a Gender Strategy and Action Plan have informed project design (Annex 5). Important gender gaps related to Honduran women in agriculture include: (i) low labor-force participation; (ii) wage differentials; (iii) lower access to land titles; and (iv) lack of entrepreneurship. The Gender Strategy and Action Plan is designed to ensure that the Project closes those gaps and identifies specific actions to this end. For example: outreach



in locations and conditions that meet women's scheduling and safety requirements; targeted capacity building; training in rural communities to address gender stereotypes; gender-specific training for selected public agency staff; and strengthened data systems to provide systematic gender information. It is expected that at least 30 percent of project beneficiaries will be women. The Results Framework includes several gender-related indicators. Although the GBV risk associated with COMRURAL III is considered low, the Project will include GBV-prevention activities: (i) mapping local service providers in charge of GBV prevention and response in the Environmental and Social Management Plans developed as part of business plans, and measures to prevent sexual exploitation and abuse/sexual harassment (SEA/SW) in RPOs; (ii) capacity building on SEA/SW response and prevention for the PIU, service providers, and RPOs; (iii) worker code of conduct with provisions on SEA/SW; and (iv) updated Grievance Redress Mechanism (GRM) to address SEA/SW grievances.

**35. Indigenous Peoples and Afro-Descendants.** Honduras is a multi-ethnic, multi-linguistic, and multi-cultural country: according to the 2013 national census, 8 percent of the population belongs to the nine IPs and ADs groups located in 16 of the country's 18 departments. Most of these communities live below the poverty level and 40 percent live in extreme poverty. COMRURAL III will strengthen social inclusion by actively encouraging IPs and ADs to participate in the Project and access its benefits through the selection criteria included in the POM. The Results Framework includes various indicators to measure the participation of IPs/ADs in the Project. The Project will also ensure that the communication strategy and stakeholder engagement are culturally appropriate and respond to the circumstances of these groups.

**36. Nutrition-smart agriculture.** Nutrition-smart agriculture consists of technologies and practices that improve nutrition while increasing farm and agribusiness productivity and income. COMRURAL III will work with local communities to identify foods and practices that contribute to more nutrient-rich diets and improve productivity. It will: (i) facilitate adoption of production, processing, and post-harvest techniques to address micronutrient deficiencies, increase protein consumption, and improve nutrition; (ii) train project technicians and farmers on food safety, FLW, post-harvest processing, and nutrition and hygiene practices; and (iii) raise nutrition awareness in community institutions to promote behavior change. The impact evaluation study will track an indicator on the prevalence of women beneficiaries of reproductive age consuming a diet of minimum diversity.

### C. Project Beneficiaries

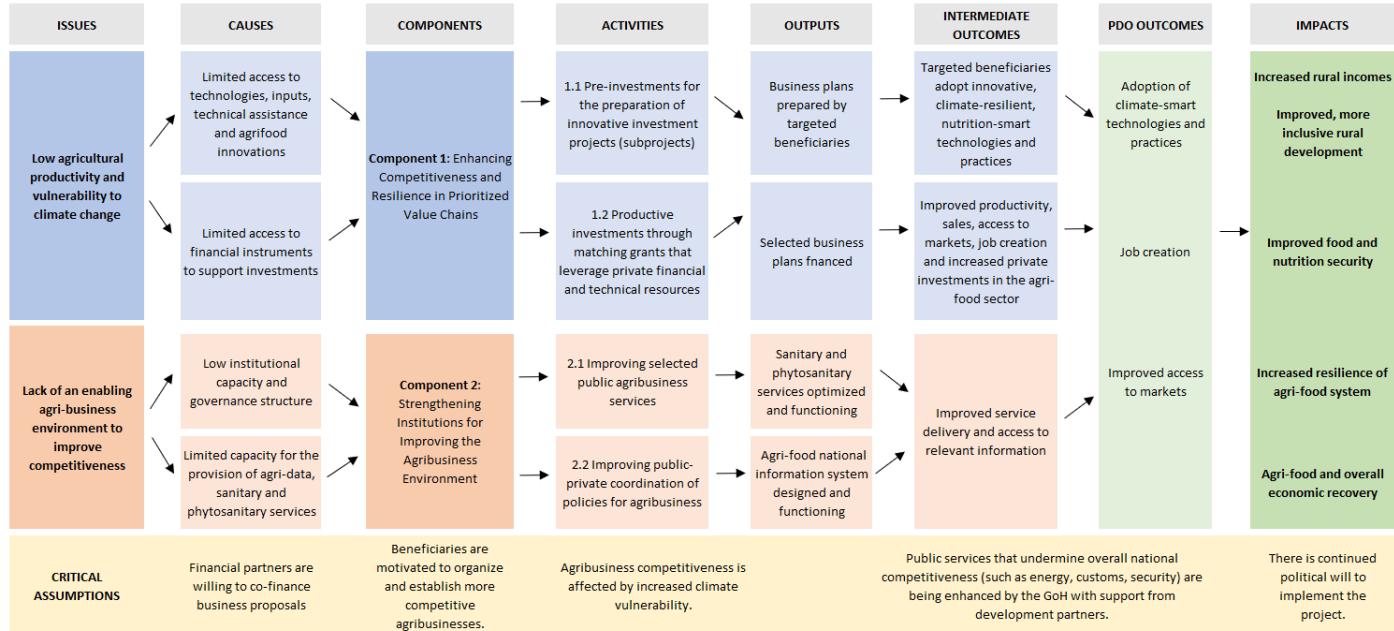
**37. The proposed Project is expected to directly benefit over 22,500 rural households (about 90,000 people) led by farmers or agri-food entrepreneurs<sup>31</sup> in Honduras.** These beneficiaries will participate in the preparation of investment subprojects on- and off-farm, preferably as part of a producer group, association, or cooperative. It is expected that: (i) at least 30 percent of direct beneficiaries will be women; (ii) 20 percent of direct beneficiaries will be individuals self-identifying as IPs and ADs; and (iii) 15 percent of direct beneficiaries will be youth (ages 18–30). Additionally, productive investments under Component 1 will indirectly benefit an estimated 66,000 families (nearly 264,000 Hondurans) engaged in agri-food enterprises and activities and participating as partners or allies of producers, through improved job opportunities (especially in areas that have experienced significant outmigration) and supply chain stability. Direct beneficiaries under Component 2 will include selected public and private institutions that play a primary role in facilitating and supporting the agri-food system (such as SAG, SENASA, and ARSA). The proposed Project will yield indirect benefits for an even broader range of stakeholders in the agricultural sector through: (i) activities to enhance the business environment in the sector; (ii) support for land and water management practices that strengthen climate

<sup>31</sup> Agri-food entrepreneurs are understood to be female or male farmers who see their farms as a business and means of generating a profit, and who are willing to take calculated risks to make their farms profitable and their businesses grow.



resilience; and (iii) support for providing safer, better-quality, less perishable food at more affordable prices to consumers all year round.

#### D. Results Chain



#### E. Rationale for Bank Involvement and Role of Partners

**38. Public action is justified when market failures limit value added to primary production and reinforce low levels of land and labor productivity.** This is the case in Honduras, where under-provision of rural support services has led to weak organizational and business development capacities of small and medium-scale farmers and agri-food enterprises, as well as to diseconomies of scale, limited access to value-adding innovations, limited development of agro-logistics services, lack of market integration, and low income and employment opportunities. Given the prevailing market failures, the combination of technical and business development assistance, smart capital transfers through matching grants, and facilitated access to financing from local financial institutions will build a strong base to support the sustainable development of agriculture and related sectors.

**39. The need for public sector financing to increase agri-food competitiveness in Honduras and the Bank's longstanding engagement in agribusiness development uniquely position the Bank to support the GoH.** The Bank's extensive experience in implementing rural productive alliance projects in LAC, particularly in Honduras through COMRURAL, will prove instrumental in supporting this Project. The proposed Project will also benefit from collaboration with the Water Global Practice of the World Bank, as well as linkages with other Bank operations in rural Honduras, including PROSASUR (P148737), COMRURAL II (P168385), and the Water Security in the Dry Corridor of Honduras Project (P169901). The proposed Project also has some collaboration with interventions in agriculture, irrigation, and rural infrastructure development supported by the Inter-American Development Bank, the Central American Bank of Economic Integration, and others active in the rural agribusiness sector and Dry Corridor.



## F. Lessons Learned and Reflected in the Project Design

40. **The proposed Project incorporates the following good practices and lessons from COMRURAL AF, COMRURAL II, PROSASUR, and other rural development investment models applied throughout the region:**

41. **Income-generating investments that respond to clear market requirements are more sustainable.** Productive alliances are successful and sustainable over time when they respond to a strong market demand. The proposed Project is designed to support investments in value chains designated as priorities by GoH, owing to their potential for domestic food security or international export.

42. **Risk factors must be mitigated to facilitate co-financing by the private financial sector.** The proposed Project will leverage matching grants, coordinate for the provision of partial credit guarantees through FONGAC, strengthen beneficiaries' productive and managerial skills, and promote technologies and practices to reduce climate change risks.

43. **Factors fostering the inclusion of vulnerable groups should be incorporated into project design and objectives.** The proposed Project will target vulnerable groups and promote their participation via targeted outreach and selection criteria. It will leverage: (i) COMRURAL's experience by strengthening dialogue with IPs, ADs, women, youth, and beneficiaries of social protection programs and integrating their feedback in subproject implementation; and (ii) PROSASUR's experience in working with persons with disabilities, as well as the results of an ongoing joint study by the World Bank and the International Fund for Agricultural Development on persons with disabilities in Honduran agriculture.

44. **Strengthening the capacity of critical sectoral institutions is essential for successful implementation.** For the agri-food system to function efficiently, public sector services must be strengthened, and the regulatory framework and institutional capacity for enabling agribusiness competitiveness must be improved. The proposed Project will support efforts to improve service delivery and minor rural infrastructure, as well as coordination between SAG, SENASA, ARSA, and other institutions.

45. **Explicit and transparent selection criteria are needed** for investments in public goods and services for agriculture, as well as incentives for farmers to adopt agricultural technologies, in order to avoid secrecy in the allocation of funding to public investments. Selection criteria and investment ceilings under the proposed Project will be specified clearly in the POM.

46. **Strengthening institutions and building capacity among vulnerable populations takes time and requires an extended commitment.** Revitalizing the rural economy and modernizing the agri-food sector while boosting the inclusion of traditionally marginalized groups is a long-term goal calling for sustained support by development institutions. The proposed Project is part of a long-term engagement in Honduras' agriculture sector and builds upon the lessons of its predecessors.

## III. IMPLEMENTATION ARRANGEMENTS

### A. Institutional and Implementation Arrangements

47. **The proposed Project will be implemented by the Honduras Strategic Investment Office (*Inversión Estratégica de Honduras*, INVEST-H for its Spanish acronym).** Project activities, including fiduciary activities and monitoring and evaluation (M&E), will be managed by INVEST-H. INVEST-H, under the General Coordinator of the Presidency of the Republic of Honduras, is a government agency charged with supporting strategic projects for the country's socio-



economic development. COMRURAL's Project Implementation Unit (PIU) under INVEST-H's Rural Development Management Office, will be responsible for the implementation and evaluation of COMRURAL III activities. The PIU will coordinate with SAG, ARSA, SENASA, private sector stakeholders, and other institutions for the implementation of the proposed Project, including the continued strengthening of institutional capacity at SAG, as the leading policy maker and institution in the sector. SAG is part of the Inter-Institutional Board of Directors of INVEST-H and will continue chairing the Project Steering Committee for COMRURAL. These institutional arrangements build on experience with INVEST-H for the implementation of the ongoing COMRURAL Projects and PROSASUR (P148737). SAG's close participation in COMRURAL will help to continue strengthening public sector capacity to implement a rural competitiveness program in the medium term. The proposed Project will rely on the four regional offices that already support COMRURAL and expand its coverage by funding the establishment of one additional office.

## B. Results Monitoring and Evaluation Arrangements

48. **The INVEST-H M&E Team has already been established and will carry out M&E for the proposed Project.** SENASA and ARSA will provide information for the M&E system. The team will manage and integrate M&E data into the Management Information System (SIG) of the proposed Project, in coordination with the other participating institutions. The M&E experience gained through the COMRURAL and PROSASUR Projects will be helpful in managing the proposed Project's M&E system, including the new areas of intervention under COMRURAL III.

49. **The SIG will include:** (i) a module for financial management (FM) that can generate data by project component, disbursement category, and source of financing (this module is already in operation at INVEST-H); (ii) a business plan module (physical and financial); (iii) a beneficiary monitoring module with geo-referencing; and (iv) a control panel to monitor the Results Framework indicators and progress in implementing operational plans. The SIG will produce: (i) semi-annual and annual progress reports; (ii) baseline data; (iii) mid-term review data; and (iv) inputs for the final evaluation of the Project. The baseline will be taken from different sources (business plans, third-party surveys, and data provided by implementing contractors and regional offices). Joint semi-annual supervision missions with WBG staff and INVEST-H will assess the status of key project results and compliance with legal agreements. To improve M&E capacity in the COVID-19 context, the use of remote georeferenced tools for implementation and monitoring (i.e. Geo-Enabling initiative for Monitoring and Supervision- GEMS methodology) will be strengthened with technical support from the WB. The mid-term review will focus on: (i) evaluating the degree of progress in achieving project outcomes; (ii) evaluating the effectiveness of institutional arrangements for project implementation; and (iii) recommending mid-course adjustments for efficient, effective project implementation.

50. **Personal data and personally identifiable information will be collected and used in connection with the M&E function of the proposed Project, under circumstances where measures to ensure the legitimate, appropriate, and proportionate use and processing of that data may not feature in national law or data governance regulations.**<sup>32</sup> To guard against misuse of those data, the PIU will incorporate best international practices for dealing with said data. The corresponding measures will be detailed in the POM and may include, by way of example and not limited to, data minimization (collecting only data that are necessary for the purpose); data accuracy (correct or erase data that are not necessary or are inaccurate); data use limitations (data are used only for legitimate and related purposes); data retention (retain data only for as long as they are necessary); informing data subjects of use and processing of data; and allowing data subjects the opportunity to correct information about them. The proposed Project will ensure that these principles

<sup>32</sup> A Draft Bill on Personal Data Protection is currently under debate. Other relevant instruments are Decree No. 170-2006 on Transparency and Access to Public Information and Decree No. 149-2013 on Electronic Signatures.



apply through assessments of existing or development of new data governance mechanisms and data standards, data sharing protocols, training, sharing of global experience, and strengthening of agricultural information systems.

51. **A study will evaluate the impact of the COMRURAL model on project beneficiaries.** The impact evaluation financed by the Project will draw on information generated by COMRURAL III as well as earlier COMRURAL operations.

### C. Sustainability

52. **The proposed Project is expected to contribute to creating a more resilient, economically viable, and efficient agri-food system, which will sustain rural transformation and recovery beyond implementation.** This agenda is a high priority for GoH, especially as the emergencies created by the pandemic and tropical storms gradually recede.

53. **Economic and social sustainability.** Enhanced competitiveness, leading to greater market access and improved export opportunities and sales, will create a strong avenue for subproject investments to be sustained. Project support for technological improvements and more efficient, resilient production is expected to make beneficiaries' agri-food activities more profitable. Independent assessments of the technical, financial, operational, environmental, and social viability of productive investments will enhance their sustainability. The long-term sustainability of the activities of individual beneficiaries and business plans will be reinforced through capacity building and technical assistance, along with the adoption of climate-resilient technologies. The development of an enabling environment for enhanced private investment will lay the foundation for financially sustainable agribusiness development beyond the timeframe of the proposed Project.

54. **Environmental and eco-system sustainability.** Under the proposed Project, environmental and eco-system sustainability will be ensured by specific measures identified in the ESMF. Subproject investments under Component 1 will promote climate-smart technologies and practices to reduce the environmental footprint of agriculture, enhance natural resource-use efficiency, reduce GHG emissions, and promote the climate resilience of key agri-food value chains at the production, processing, and post-harvest stages. Component 2 will in turn enhance the capacity of key public and private institutions to support and promote climate adaptation and mitigation, both among project beneficiaries and at a systemic level. The incorporation of climate-resilient technologies and natural resource management practices will promote eco-system preservation, contribute to climate change mitigation, and reduce the vulnerability of rural households (especially the poorest) to climate change and natural disasters.

55. **Institutional sustainability.** Increased strategic and operational capacities of relevant institutions and improved laboratory, traceability, and information systems will foster system-wide sustainability. Together with improved regulations, systems, and information, this will provide an effective framework to support agribusiness activities and to monitor and maintain agribusiness standards even after the Project ends. COMRURAL III will strengthen market linkages for beneficiary organizations (which will help to improve product sales and exports in the future), and will increase integration throughout the agri-food system by improving coordination among unions, chambers, and second-tier producer associations, among others.

## IV. PROJECT APPRAISAL SUMMARY

### A. Technical, Economic and Financial Analysis

56. **Economic and financial analysis.** The economic analysis includes all project investments and operational costs, regardless of financing source, and estimates the most direct economic benefits of the proposed Project. Those benefits are largely derived from the incremental net revenue flowing to beneficiaries from subproject implementation under



Component 1 and from the expected global economic benefits arising from a net reduction in GHG emissions of approximately 133,076 tCO<sub>2</sub>e per year over a 20-year period. These benefits were estimated using low carbon price (LCP) and high carbon price (HCP) assumptions, as per current WBG guidelines. Economic benefits from Component 2 will materialize through more efficient public services and the benefits that agribusinesses derive from them, but these benefits are too complex to estimate ex-ante and are not considered in the cost-benefit analysis (Component 2 represents 8.2 percent of total project costs).

**57. Economic viability.** The ex-ante economic and financial analyses confirm that the proposed Project is a sound investment. The analysis yields an economic rate of return (ERR) of 24.1 percent with the LCP assumption and 28.8 percent under the HCP scenario. The economic net present value (NPV) was estimated at US\$73.9 million under the LCP assumption and US\$106.8 million under the HCP scenario, using a 12 percent social discount rate. The benefit-cost ratios (B/C-R) were 2.5 and 3.2 for the LCP and the HPC scenarios, respectively. Even without accounting for the economic benefits of a net reduction in GHG emissions, the proposed Project would be economically feasible, with an ERR of 19 percent, NPV of US\$40.9 million, and a B/C-R of 1.8. The robustness of these results was confirmed by a sensitivity analysis. Switching values were estimated with respect to the maximum increases in costs and maximum reductions in benefits at low and high carbon prices. The proposed Project would remain economically viable even with a 150 percent reduction in economic benefits or an increase in total costs of around 60 percent. All subproject models used in the analysis to estimate the economic benefits from Component 1 yielded financial internal rates of return higher than the financial discount rate of 15 percent. This result suggests that beneficiaries will have sufficient financial incentives to remain in business beyond Project implementation, and that the anticipated economic benefits will also be sustained over time. During implementation, each subproject proposal will undergo an ex-ante financial cost-benefit analysis as part of the vetting process.

## B. Fiduciary

**58. Financial Management (FM).** In April 2021, during project preparation, the WBG team carried out a (virtual) FM assessment in accordance with World Bank IPF Policy/Directive and the Financial Management Manual for World Bank IPF Financing Operations, to evaluate the adequacy of FM arrangements in place at INVEST-H, the implementing entity of the proposed Project. The objective of the assessment was to determine whether the implementing agency has acceptable FM and disbursement arrangements in place to adequately control, manage, account for, and report on the use of project funds. The assessment included a review of: (i) existing financial management systems to be used for project monitoring, accounting, and reporting; (ii) the staffing requirements of the Project; (iii) the flow of funds currently in place for the “parent” COMRURAL Project and proposed disbursement arrangements for the expanded activities under the additional financing credit; (iv) internal control mechanisms in place; and (v) external auditing arrangements. FM arrangements for the proposed Project will be fundamentally the same as for the ongoing COMRURAL II Project (P168385). Project budgeting, accounting, financial reporting, and disbursements will be fully centralized by the PIU at INVEST-H and will follow the same internal control processes applied to the ongoing COMRURAL Project. INVEST-H has acceptable institutional capacity and longstanding experience with implementing WBG-financed projects. Therefore, the overall FM arrangements are considered adequate for the expanded activities of the proposed operation.

**59. Procurement.** Procurement will be carried out in accordance with the “World Bank Procurement Regulations for IPF Borrowers,” dated July 2016 and revised in November 2020 (the “Procurement Regulations”). INVEST-H has prior experience with procurement procedures of multilateral organizations and has implemented several WBG-funded projects, including the COMRURAL series. In April 2021, during project preparation, the Bank updated the capacity assessment of the PIU. The PIU will be strengthened with additional procurement specialists to support the expanded coverage under COMRURAL III and will have full responsibility for the implementation of business plans under all matching grant windows, including the provision of technical assistance to comply with the fiduciary, social,



communication, and environmental safeguard requirements specified in the POM. A Procurement Plan covering at least the first 18 months of Project implementation has been prepared. The Project Procurement Strategy for Development (PPSD) has been developed to support attainment of the PDO and deliver value for money under a risk-based approach. To that end, the PPSD includes a market analysis supporting the selection methods detailed in the Procurement Plan. All procurement procedures, including roles and responsibilities of different units, will be defined in the POM. The POM will detail procedures to be used for the procurement of goods, works, consultant services, and non-consultant services by RPOs. Mandatory procurement prior review thresholds detailed in the World Bank Procurement Procedures, Annex I will be observed. A procurement audit of all procurement activities will be conducted once a year. Standard documents for subproject procurement will be adjusted to reflect local market conditions and needs of beneficiaries.

### C. Legal Operational Policies

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

60. **Small-scale irrigation activities may rely on water from watersheds of the Goascoran River and the Lempa River (shared with El Salvador) and of the Negro River and Coco River (shared with Nicaragua), which are considered international waterways.** Accordingly, the World Bank's Operational Policy – Projects on International Waterways (OP 7.50) is triggered. The subprojects will support the use of existing hydraulic assets for agricultural production and apply water more efficiently and equitably to farmland without increasing the amount of water abstracted, and there will be no investments in new irrigation schemes that rely on waters of international waterways. Given the limited amounts of water to be abstracted and the localized nature of the sources, the World Bank assessed that: (i) the proposed activities are not likely to adversely affect the quantity or quality of the water flowing to downstream riparians; and (ii) the proposed Project will not be affected by the water use of other riparians. Accordingly, an exception to the riparian notification requirement was granted by the Regional Vice Presidency on May 5, 2021.

### D. Environmental and Social

61. **The combined Environmental and Social (E&S) Risk rating is Substantial, notably due to social risks.**

62. **The environmental risk classification is Moderate because the scope and scale of the Project's environmental impacts will be small and highly localized.** From an environmental perspective, project-related risks will stem from small investments for institutional strengthening, human capital and business climate-enhancing activities, and technical assistance to improve production techniques. Overall Project investments are expected to contribute to positive environmental benefits, notably the adoption and scaling up of climate-resilient and sustainable natural resource management practices that will reduce the GHG emissions of value chains. This could be obtained through silvopastoralism, efficient water-utilization techniques for agriculture, soil and watershed management practices that reduce erosion and limit evapotranspiration, the development of farmer-led irrigation and small-scale collective irrigation systems that increase the resilience of rain-fed agriculture, and low-cost, solar-powered pumping systems. Some project areas with significant biodiversity values can be found in modified, natural and critical habitats as well as legally protected areas. Given that activities are expected to be mostly small and medium scale business plans, the project will prioritize support for business plans in modified habitats that do not have significant biodiversity values. Potential use of chemical inputs represents an environmental and occupational health and safety risk. Pesticide Management Plans will be required for projects that propose their use, following ESMF procedures. Fertilizers will be



limited to locations that have deficiencies demonstrated by a prior soil test. Other potential risk identified are a potential water balance issues associated with irrigation works, phytosanitary aspects of livestock production supported under the project, and vulnerability to climate-associated drought and flooding. Project activities are not expected to involve any major civil works. No major movement of earth or excavation is anticipated, nor is it expected that natural features and landscapes with some level of cultural significance might be adversely impacted by the project. As such, any investment funded under the project will be screened for its potential to cause negative impacts to terrestrial and aquatic natural habitats under the ESMF procedures.

63. **Social risk is considered Substantial due to:** (i) the difficulties of implementing business and social risk management plans with multiple, diverse, and nationally dispersed Indigenous groups with different degrees of vulnerability (particularly under Window 1, which targets poor and extremely poor producers); (ii) a national context characterized by high levels of crime and violence, and challenges caused by recent emergencies (COVID-19, Eta, Iota) that hinder PIU monitoring, Bank supervision capacity, and access to the Project's GRM; (iii) business plans may generate impacts related to community health and safety and labor conditions, including potential child labor in the supply chains, and may exacerbate social tensions related to land tenure and other potential risks and impacts covered under the Environmental and Social Framework (ESF), which is a new framework for INVEST-H; and (iv) difficulties associated with tracking social risks across a geographical area that is larger than the area under previous COMRURAL operations. Although INVEST-H has had satisfactory capacity to implement social safeguards, including actions on gender and social inclusion, the PIU has taken on additional responsibilities that currently limit its ability to manage risks in accordance with the ESF.

64. **The Recipient developed the following environmental and social instruments:** (i) Environmental and Social Management Framework (ESMF); (ii) Resettlement Framework with Process Framework (RPF); (iii) Stakeholder Engagement Plan (SEP), including the Project-level GRM; (iv) Indigenous Peoples Planning Framework (IPPF); (iv) Labor Management Procedures (LMP) with a dedicated GRM for workers; and (v) an Environmental and Social Commitment Plan (ESCP). The ESCP includes all measures that the proposed Project will need to address during implementation to comply with the ESF, as well as monitoring and reporting arrangements.<sup>33</sup> The negotiated ESCP was disclosed by the client on May 14, 2021,<sup>34</sup> and on the WB website on May 18, 2021.

65. **During project preparation, INVEST-H carried out consultations about overall project design and the content of E&S instruments, including suggested ways to share project information and engage with stakeholders.** Consultations were undertaken between March 15-19, 2021 through different channels, with a total of 43 stakeholders participating in focus groups and surveys. Participants included IPs, ADs, women, and youth. Twenty-seven percent of focus group participants were IPs, 38 percent women. A dedicated IP focus group involved several national IP organizations. Results of consultations are documented in a Consultations Report attached to the SEP and integrated into project design and E&S instruments. Advanced drafts of all these instruments were disclosed online by INVEST-H and the World Bank prior to Appraisal (April 22, 2021) and disseminated through other means as deemed necessary. The Recipient will continue to receive feedback from stakeholders until the end of May 2021 and will integrate it into the final versions of E&S instruments. A targeted social assessment will be undertaken to complement the description of vulnerable groups currently in the ESMF. The ESMF, RPF, SEP, IPPF, and LMP will be finalized and redislosed within 90 days of the Project's Effectiveness Date, as reflected in the negotiated ESCP.

66. **The PIU includes an environmental specialist, an environmental officer, a social specialist, and a social officer—all working full time—and will incorporate an additional environmental specialist, an environmental officer, a social**

<sup>33</sup> Dam safety measures covered by ESS4 Annex 1 will follow the instruments in place for COMRURAL II under OP 4.37.

<sup>34</sup> <http://www.comrural.hn/wp-content/uploads/2021/05/NEGOTIATED-Environmental-and-Social-Commitment-Plan-ESCP.pdf>



**specialist, and a social officer under COMRURAL III, if, as expected, it is implemented simultaneously with COMRURAL II.** In addition, INVEST-H's in-house resettlement, legal, and gender specialists can provide intermittent support to the Project, and, if deemed necessary, additional consultants may be hired. Although the current PIU at INVEST-H does not have ESF experience, it has developed institutional capacity and procedures to satisfactorily undertake actions to ensure E&S compliance under safeguards while strengthening the social inclusion approach. During the early stages of implementation, the Bank team will work closely with the PIU to develop a training plan for project staff on: (i) E&S management instruments; (ii) requirements of the ESCP; and (iii) monitoring of project E&S standards and requirements.

## V. GRIEVANCE REDRESS SERVICES

67. **Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to the existing project-level GRM or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## VI. KEY RISKS

68. **The proposed Project's overall risk is assessed as *Substantial*, based on the assessments below.**

69. **The political and governance risk is rated *Substantial*.** Political polarization has traditionally delayed approvals of internationally financed projects and recent political transitions have not been seamless. Political changes may reduce the focus on key project interventions, thus limiting the achievement of the PDO. This risk will be mitigated by a strong process of consultation and information sharing on national development plans with all stakeholders by GoH, allowing key stakeholders to express their perspectives on public policies. Project preparation also involved multiple consultations with key agencies, ensuring buy-in for the objectives of this operation. Across the political spectrum there is a clear understanding of the importance of agriculture as a key economic driver and of the urgency of supporting the sector, especially given the economic repercussions of the tropical storms and pandemic.

70. **The macroeconomic risk is considered *Substantial*,** stemming from both external and domestic factors. Extreme weather conditions, global economic slowdown, and lower international prices for key agricultural products are expected to result in large agricultural losses and lower exports. Domestically, the pandemic has weakened growth, and external and fiscal accounts, and new waves of COVID-19, coupled with uncertainty on vaccine rollout, could prompt renewed containment measures and delay recovery. Political polarization and possible unrest surrounding the general elections in November 2021 could threaten macroeconomic stability by delaying reforms. Limited fiscal space could affect project implementation by reducing available resources. The GoH seeks to strengthen fiscal sustainability through reforms to increase the quality of fiscal policy and the business environment, with the support of the International Monetary Fund. The impacts of the pandemic and tropical storms are also being mitigated through an Economic Rescue Plan and the preparation of a Plan for Reconstruction and Sustainable Development. Implementation of a Disaster Risk Financing Strategy by the Ministry of Finance and measures supported by the IDA-financed Disaster Risk Management



Development Policy Credit with a Catastrophe Deferred Drawdown Option will promote resilience, emergency response, and build a fiscal buffer if natural disasters occur.

71. **The institutional implementation capacity risk is considered *Substantial*** because, compared to COMRURAL II, COMRURAL III has a larger amount of funding, is broader in scope and coverage area, incorporates more innovations, and will be implemented under a challenging emergency recovery environment. Measures to address these risks include: strengthening the technical capacity of the PIU within INVEST-H, reinforcing the technical staff in the regional offices of the Project, and continuing to foster inter-institutional collaboration with SAG and other sector institutions.

72. **The integrated fiduciary risk is considered *Substantial*. Financial Management risk is assessed as *Substantial*** due to: (i) recent allegations of corruption in INVEST-H (unrelated to the COMRURAL PIU), prompting an intervention; (ii) limited experience of the PIU in working with extremely poor producers, who in turn have weak capacity to manage matching grants; and (iii) expected challenges in monitoring the execution of subproject due to the Project's national scope and coverage of remote rural areas, which may elevate the risk that project funds are not used for their intended purpose. To mitigate these risks, the Project will be implemented by an experienced PIU within INVEST-H dedicated exclusively to the COMRURAL operations. Further, the fiduciary team will be strengthened in both the central and regional PIUs. Digital tools with fiduciary functionalities, including remote supervision, will be adopted. The POM will include guidelines for strengthened controls on cash transfers and for an audit firm to conduct audits twice a year on a sample of the eligibility of beneficiaries, subproject transactions, flow of funds, and documentation of expenditures.

73. **The procurement risk is also *Substantial*.** While INVEST-H has prior experience implementing the COMRURAL operations, risks include the overall country governance environment and the complexity of the procurement arrangements. The main procurement risks are that: (i) staff of the implementing agency and PIU may lack capacity and experience to perform their duties appropriately; (ii) a large number of procurement activities to be implemented for subprojects may complicate tracking and recording procurement processes; and (iii) lack of capacity of the market to provide certain goods, services, or works due to increased local and international demand may expose weaknesses in the supply chain and/or significant price increases. These risks will be mitigated by: (i) enhancing the capacity of the implementing entity by engaging in agreements and/or contracts with international firms to provide technical services; (ii) hiring additional experienced procurement and technical staff for the PIU; (iii) ensuring roles and responsibilities are clearly defined in the POM; (iv) using electronic procurement systems or apps such as SOL (online procurement solution) to facilitate procurement processes, track procurement, and create consolidated records that provide a better understanding of providers; (v) conducting yearly procurement audits of all procurement activities implemented under the Project; and (vi) performing targeted market analysis to identify potential providers/contractors for goods, services, and works and classify them according to their capacity, experience, and the type of goods, services, or works delivered.

74. **The combined Environmental and Social Risk rating is *Substantial*.** While Environmental Risk is assessed as *Moderate*, Social Risk is rated *Substantial* due to: (i) nationally dispersed, diverse, and vulnerable Indigenous groups; (ii) crime and violence, together with COVID-19 and tropical storms, may hinder PIU monitoring, WB supervision capacity, and access to the Project's GRM; (iii) risks to community health and safety and labor conditions related to business plans; (iv) expanded geographical coverage of COMRURAL III; and (v) ESF being a new framework for INVEST-H. These risks will be mitigated by strengthening the PIU with additional E&S specialists, and developing a training plan on: (i) E&S management instruments; (ii) the requirements of the ESCP; and (iii) the monitoring of the Project's E&S standards and requirements. Measures to prevent the risk of child labor (identified in the LMP) include, among others: (i) setting the minimum age to be allowed to work under the Project at 18, and strictly prohibiting any form of child and/or forced labor; and (ii) ensuring that any business plans where the presence of child labor is identified does not receive any project financing. The mitigation of crime and violence risk is addressed in the ESMF: examples include strengthening social capital through agricultural associations and cooperatives and helping youth plan their future through agricultural work.



75. **Other risks. Climate Change and Disaster Risks are *Substantial*.** Honduras is vulnerable to extreme climate events that may severely affect RPOs, and the adaptive capacity of the country remains low. To mitigate this risk, climate-smart approaches to promote resilience and address climate vulnerability will be fully integrated in the proposed Project, while the CERC will allow for immediate response in case of an eligible crisis or emergency. **The risk to MFD is *Substantial*.** The envisaged private capital might not be leveraged in full, due to a slow recovery in the country. The Project will mitigate this risk by: (i) adjusting co-financing criteria; (ii) ensuring business plans are developed in coordination with potential financing institutions; (iii) guaranteeing a portion of subproject investments through FONGAC; and (iv) continuing the ongoing MoU between COMRURAL and partner financial institutions, and seeking similar MoUs with additional financial institutions. If the anticipated financing does not materialize even after these measures are taken, PCM estimates will be revised and the Project can be scaled down to achieve the PDO.

**VII. RESULTS FRAMEWORK AND MONITORING****Results Framework**

COUNTRY: Honduras

Innovation for Rural Competitiveness Project - COMRURAL III

**Project Development Objectives(s)**

- (i) To contribute to market access, adoption of climate-smart approaches, and job creation in support of project beneficiaries in selected agri-food value chains; and (ii) in case of an Eligible Crisis or Emergency, to respond effectively to it.

**Project Development Objective Indicators**

Indicator Name	PBC	Baseline	Intermediate Targets			End Target
			1	2	3	
<b>Contribution to market access</b>						
Increase in the value of gross sales of approved business plans from the second year of project execution (Percentage)		0.00	5.00	10.00	20.00	20.00
<b>Enhanced adoption of climate-smart technologies and practices</b>						
Beneficiaries adopting improved technologies promoted by the project to enhance climate resilience (Number)		0.00	2,240.00	4,600.00	7,160.00	14,000.00
of whom women (Percentage)		0.00	7.00	17.00	30.00	30.00
of whom youth (Percentage)		0.00	4.00	8.00	15.00	15.00
of whom Indigenous Peoples/Afro-Descendants		0.00	5.00	12.00	20.00	20.00



Indicator Name	PBC	Baseline	Intermediate Targets			End Target
			1	2	3	
(Percentage)						
<b>Contribution to job creation</b>						
Additional individuals working under investment initiatives financed by the Project, disaggregated by gender, youth, Indigenous Peoples, and Afro-Descendants (Number)	0.00	3,225.00	8,210.00	14,000.00	14,000.00	
of whom women (Percentage)	0.00	7.00	17.00	30.00	30.00	
of whom youth (Percentage)	0.00	4.00	8.00	15.00	15.00	
of whom Indigenous Peoples/Afro-Descendants (Percentage)	0.00	5.00	12.00	20.00	20.00	

**Intermediate Results Indicators by Components**

Indicator Name	PBC	Baseline	Intermediate Targets			End Target
			1	2	3	
<b>Enhancing competitiveness and resilience in prioritized value chains</b>						
Business plans financed under the Project (Number)	0.00	117.00	296.00	510.00	510.00	
of which subsistence agriculture (Number)	0.00	45.00	134.00	224.00	224.00	
of which transitioning agriculture (Number)	0.00	30.00	70.00	124.00	124.00	
of which commercially-oriented	0.00	20.00	42.00	62.00	62.00	



Indicator Name	PBC	Baseline	Intermediate Targets			End Target
			1	2	3	
agriculture (Number)						
of which small agro-logistics (Number)	0.00	20.00	50.00	100.00	100.00	
Business plans financed under the Project that incorporate climate-smart investments (Number)	0.00	58.00	148.00	255.00	255.00	
Business plans financed under the Project that incorporate nutrition-smart agriculture investments (Number)	0.00	30.00	92.00	155.00	155.00	
Increase in the Index of Organizational Capacity of RPOs (Percentage)	0.00	0.00	5.00	10.00	10.00	
Beneficiaries participating in business plans under the Project (Number)	0.00	3,200.00	11,770.00	20,000.00	20,000.00	
of whom women (Percentage)	0.00	7.00	17.00	30.00	30.00	
of whom youth (Percentage)	0.00	4.00	8.00	15.00	15.00	
of whom Indigenous Peoples/Afro-Descendants (Percentage)	0.00	5.00	12.00	20.00	20.00	
Individuals working under investment initiatives financed by the Project, disaggregated by gender, youth, Indigenous Peoples, and Afro-Descendants (Number) (Number)	0.00	4,000.00	8,250.00	12,750.00	25,000.00	
of whom women (Percentage)	0.00	7.00	17.00	30.00	30.00	
of whom youth (Percentage)	0.00	4.00	8.00	15.00	15.00	
of whom Indigenous	0.00	5.00	12.00	20.00	20.00	



Indicator Name	PBC	Baseline	Intermediate Targets			End Target
			1	2	3	
Peoples/Afro-Descendants (Percentage)						
Producer Organizations accessing new sources of finance for operating expenses and capital investment (Number)	0.00		52.00	112.00	187.00	187.00
Private capital mobilized (Amount(USD))	0.00		12,176,613.00	12,848,387.00	14,805,000.00	39,830,000.00
Beneficiaries satisfied with technical and financial assistance received under the Project (Percentage)	0.00		80.00	80.00	80.00	80.00
Beneficiaries satisfied with the participatory process of business plan preparation (Percentage)	0.00		80.00	80.00	80.00	80.00
Women attending women-tailored training events implemented to provide additional support to their enterprises (Number)	0.00		615.00	1,482.00	2,500.00	2,500.00
Women beneficiaries demonstrating an improvement in empowerment (Pro-WEAI) (Percentage)	0.00		0.00	8.00	8.00	15.00
<b>Strengthening institutions for improving the agribusiness environment</b>						
Beneficiaries reached with agricultural assets or services in the Project-targeted value chains (Number)	0.00		5,385.00	13,270.00	22,500.00	22,500.00
of whom women (Percentage)	0.00		7.00	17.00	30.00	30.00
of whom youth (Percentage)	0.00		4.00	8.00	15.00	15.00



Indicator Name	PBC	Baseline	Intermediate Targets			End Target
			1	2	3	
of whom Indigenous Peoples/Afro-Descendants (Percentage)	0.00	5.00	12.00	20.00	20.00	20.00
Reduction in the average time required for selected, prioritized SENASA processes (Percentage)	0.00	10.00	20.00	30.00	30.00	30.00
Reduction in the average time required for ARSA laboratory analyses (Percentage)	0.00	10.00	20.00	30.00	30.00	30.00
ARSA Mobile Laboratories created and functioning (Number)	0.00	0.00	3.00	3.00	3.00	3.00
National ARSA Laboratory with internationally-accredited processes created (Yes/No)	No	No	No	Yes	Yes	Yes
National agro-logistics strategy prepared (Yes/No)	No	No	Yes	Yes	Yes	Yes
National Agricultural Council (NAC) and Technical and Business Unit created under SAG (Yes/No)	No	No	Yes	Yes	Yes	Yes
National Registry of value-chain agricultural producers created (Yes/No)	No	No	Yes	Yes	Yes	Yes
The Rural Development Management Office of INVEST-H develops and issues its gender strategy (Yes/No)	No	Yes	Yes	Yes	Yes	Yes
<b>Project management support</b>						
Grievances responded to and/or resolved within 90 days (percentage of total received) (Percentage)	0.00	100.00	100.00	100.00	100.00	100.00



Indicator Name	PBC	Baseline	Intermediate Targets			End Target
			1	2	3	
Indigenous Peoples/Afro-Descendants in project areas that feel project investments reflect their needs established during participatory business plan formulation process (Percentage)	0.00	80.00	80.00	80.00	80.00	80.00
of whom women (Percentage)	0.00	30.00	30.00	30.00	30.00	30.00
Project impact evaluation implemented (Yes/No)	No	No	No	Yes	Yes	Yes

#### Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Increase in the value of gross sales of approved business plans from the second year of project execution	Percentage increase over the baseline, calculated by comparing the value of gross sales of a sample of beneficiary producer organizations.	Yearly starting in year 3	Business plans and beneficiary monitoring system	Increase in percentage points over the baseline, calculated by comparing the value of gross sales of a sample of RPOs benefited by the Project with a control group.	M&E Team of COMRURAL PIU
Beneficiaries adopting improved technologies promoted by the project to enhance climate resilience	This indicator measures the number of farmers who have adopted at least one	Mid-term evaluation and final	Business plans and beneficiary	This indicator will be measured through a survey, conducted by a	M&E Team of COMRURAL PIU



	improved agricultural practice and/or technology promoted by the project.	evaluation	monitoring system, mid-term and final evaluation reports.	third party, applied to a representative sample of farmers who are part of business plans that incorporate climate-smart practices or technologies.	
of whom women					
of whom youth	Individuals aged 18-30				
of whom Indigenous Peoples/Afro-Descendants	Individuals who self-define as Indigenous or Afro-Descendants				
Additional individuals working under investment initiatives financed by the Project, disaggregated by gender, youth, Indigenous Peoples, and Afro-Descendants	This definition encompasses the variety of forms of employment associated with jobs in agriculture that could be created under the various sub-project windows proposed under Component 1: e.g. self-employment by producers and their families; hiring of temporary and seasonal workers; full-time, formal jobs.	Annual	Reports of monitoring visits to sites of business plan activities	Number of new jobs verified through monitoring visits. The data will be collected by the Entrepreneurship Development Service Providers (PSDEs) and the PIU through the regional offices.	M&E Team of COMRURAL PIU
of whom women					
of whom youth	Individuals aged 18-30				
of whom Indigenous Peoples/Afro-Descendants	Individuals who self-define as Indigenous or Afro-				



	Descendants				
<b>Monitoring &amp; Evaluation Plan: Intermediate Results Indicators</b>					
Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Business plans financed under the Project	Total number of business plans financed by the Project under all windows of Component 1	Semi-annual	Project monitoring system	Count of business plans approved by the Project	M&E Team of COMRURAL PIU
of which subsistence agriculture	Total number of business plans financed by the project under Window 1 of Component 1				
of which transitioning agriculture	Total number of business plans financed by the Project under Window 2 of Component 1				
of which commercially-oriented agriculture	Total number of business plans financed by the Project under Window 3 of Component 1				
of which small agro-logistics	Total number of business plans financed by the Project under Window 4 of Component 1				
Business plans financed under the Project that incorporate climate-smart investments	Total number of business plans financed under the Project that incorporate climate-smart investments.	Semi-annual	Business plans and project monitoring system.	Count of business plans approved by the Project.	M&E Team of COMRURAL PIU



Business plans financed under the Project that incorporate nutrition-smart agriculture investments	Total number of business plans financed under the Project that incorporate nutrition-smart agriculture investments	Semi-annual	Business plans and project monitoring system.	Count of business plans approved by the Project.	M&E Team of COMRURAL PIU
Increase in the Index of Organizational Capacity of RPOs	Average percentage increase in the baseline Index of Organizational Capacity of each RPO. The index reflects the capabilities of the RPO in terms of: (i) Management Administration, (ii) Strategic Orientation, (iii) Organizational Structure and Functionality, (iv) Organizational Processes, (v) Control and (vi) Services Offered or Channeled. Each of these six components is disaggregated into elements that are scored in a semi-annual evaluation and provide insight into the progress of the RPO in terms of its organizational capacity and business management for the implementation of the	Semi-annual	Business plans and project monitoring system.	Business plans and beneficiary monitoring system.	M&E Team of COMRURAL PIU



	business plan. Elements with the lowest scores imply that specific actions must be defined to enable the RPO to achieve its objectives and goals and succeed in implementing the business plan.				
Beneficiaries participating in business plans under the Project	This indicator measures the number of beneficiaries who participate directly in the business plans (Component 1).	Semi-annual	Business plans and beneficiary monitoring system	Lifting of characterizations of partners by RPO.	Information elicited by the Service Provider during the formulation of the business plan, with a semi-annual follow-up, and M&E Team of COMRURAL PIU.
of whom women					
of whom youth	Individuals aged 18-30				
of whom Indigenous Peoples/Afro-Descendants	Individuals who self-define as Indigenous or Afro-Descendants				
Individuals working under investment initiatives financed by the Project, disaggregated by gender, youth, Indigenous Peoples, and Afro-Descendants (Number)	This definition encompasses the variety of forms of employment associated with jobs in agriculture that could be created under the various sub-project windows proposed under Component 1: e.g., self-employment by producers and their	Annual	Reports of monitoring visits to sites of business plan activities.	Number of new jobs verified through monitoring visits. Entrepreneurship Development Service Providers (PSDEs) and the PIU through the regional offices.	M&E Team of COMRURAL PIU.



	families; hiring of temporary and seasonal workers; full-time, formal jobs.				
of whom women					
of whom youth	Individuals aged 18-30				
of whom Indigenous Peoples/Afro-Descendants	Individuals who self-define as Indigenous or Afro-Descendants				
Producer Organizations accessing new sources of finance for operating expenses and capital investment	This indicator measures the number of Producer Organizations beneficiaries of Windows 2 and 3 of Component 1 that access new private funding sources for operating expenses and capital investment	Semi-annual	Business plans and monitoring system	Loan contracts with private financial partners established by the RPOs.	M&E Team of COMRURAL PIU.
Private capital mobilized	Private commercial financing leveraged by the Project to implement business plans.	Semi-annual	Business plans and monitoring system	The information for this indicator will be collected from data on loans and other types of private capital obtained by participating agribusiness organizations to co-finance their business plans under the Project.	M&E Team of COMRURAL PIU.
Beneficiaries satisfied with technical and financial assistance received under the	This indicator measures the level of satisfaction of	Mid-term evaluation	Business plans and	This indicator will be assessed through a	External consulting firm, M&E Team of



Project	beneficiaries with the technical and financial assistance received under the Project.	and final evaluation	beneficiary monitoring system	survey of a representative sample of beneficiaries, taking into account the targets for the participation in business plans for women, youth, Indigenous Peoples, Afro-descendants, and those covered under GoH social protection programs. This indicator will be assessed by a third party.	COMRURAL PIU.
Beneficiaries satisfied with the participatory process of business plan preparation	This indicator measures the level of satisfaction of beneficiaries with the participatory process implemented to prepare business plans under the Project.	Mid-term evaluation and final evaluation	Business plans and beneficiary monitoring system	This indicator will be assessed through survey of a representative sample of beneficiaries, taking into account the targets for participation in business plans for women, youth, Indigenous Peoples, Afro-descendants, and those covered under GoH social protection programs. This indicator will be assessed by a third party.	External consulting firm, M&E Team of COMRURAL PIU.



				party.	
Women attending women-tailored training events implemented to provide additional support to their enterprises	Number of women attending training and capacity-building events directed at women's enterprises to provide additional support for their subprojects.	Semi-annual	Business plans and monitoring system	Business plans and beneficiary monitoring system.	M&E Team of COMRURAL PIU.
Women beneficiaries demonstrating an improvement in empowerment (Pro-WEAI)	Ratio of number of women participating in business plans that demonstrate an increase in the Pro-WEAI index over total number of surveyed women participating in business plans.  The project-level Women's Empowerment in Agriculture Index (Pro-WEAI) is a survey-based index for measuring empowerment, agency, and inclusion of women in the agriculture sector. It is composed of 12 indicators of women's empowerment in agriculture: autonomy in income, self-efficacy, attitudes about domestic violence, input in productive	Mid-term evaluation and final evaluation	Business plans and beneficiary monitoring system	Surveys will be used to measure empowerment, self-management, and inclusion of women in the agricultural sector. This indicator will be assessed by a third party.	External consulting firm, M&E Team of COMRURAL PIU.



	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.				
Beneficiaries reached with agricultural assets or services in the Project-targeted value chains	This indicator measures the number of beneficiaries who participate directly in the business plans (Component 1) and in Component 2 of the Project.	Semi-annual	Business plans and beneficiary monitoring system	Business plans and beneficiary monitoring system	M&E Team of COMRURAL PIU.
of whom women					
of whom youth	Individuals aged 18-30				
of whom Indigenous Peoples/Afro-Descendants	Individuals who self-define as Indigenous or Afro-Descendants				
Reduction in the average time required for selected, prioritized SENASA processes	Percentage reduction in the average time required in processes previously defined by SENASA, measured after the execution of the investments	Annual	Analysis of the annual database of processes (SENASA)	This indicator measures the percentage reduction in days to register medicines for veterinary use, products for animal feeding, and pesticides.	Department of Informatics of SENASA, M&E Team of COMRURAL PIU.



Reduction in the average time required for ARSA laboratory analyses	Percentage reduction in the average time required in processes previously defined by ARSA, measured after the execution of the investments	Annual	Analysis of the annual database of processes. (ARSA)	This indicator measures the percentage reduction in days required for ARSA to deliver results of laboratory analyses to beneficiaries.	Department of Informatics of ARSA, M&E Team of COMRURAL PIU.
ARSA Mobile Laboratories created and functioning	Number of ARSA Mobile Laboratories created and functioning	Annually	Department of Informatics of ARSA	Mobile laboratories are created and performing rapid food and beverage analysis.	Department of Informatics of ARSA, M&E Team of COMRURAL PIU.
National ARSA Laboratory with internationally-accredited processes created	National ARSA Laboratory with internationally-accredited processes created	Final evaluation	Department of Informatics of ARSA	Documentation certifying the international accreditation and improvement of laboratory processes.	External consulting firm, Department of Informatics of ARSA, M&E Team of COMRURAL PIU.
National agro-logistics strategy prepared	National agro-logistic strategy is prepared.	Final evaluation	Information gathering in coordination with SAG	Approved document	External consulting firm, SAG, M&E Team of COMRURAL PIU.
National Agricultural Council (NAC) and Technical and Business Unit created under SAG	National Agricultural Council (NAC) and Business Unit created under SAG	Final evaluation	Information gathering in coordination with SAG	Established NAC and Business Unit	External consulting firm, SAG, M&E Team of COMRURAL PIU.



National Registry of value-chain agricultural producers created	National Registry of value-chain agricultural producers is created	Annually	Information gathering in coordination with SAG.	Registry created.	External consulting firm, SAG, M&E Team of COMRURAL PIU.
The Rural Development Management Office of INVEST-H develops and issues its gender strategy	The Rural Development Management Office of INVEST-H develops and issues its approved gender strategy.	Once, in the first year of the Project	Information collected by the COMRURAL PIU for the development of the strategy	Approved document	M&E Team of COMRURAL PIU.
Grievances responded to and/or resolved within 90 days (percentage of total received)	Percentage of grievances responded to and/or resolved within 90 days	Semi-annual	Information collected by the COMRURAL PIU through the Grievance Redress System, and from inquiries made through other means.	Reception, analysis, and response to complaints, claims, and inquiries made through the Grievance Redress System and other means.	M&E Team of COMRURAL PIU.
Indigenous Peoples/Afro-Descendants in project areas that feel project investments reflect their needs established during participatory business	Percentage of individuals who self-define as Indigenous or Afro-Descendants in project	Mid-term and final evaluations	Business plans and monitoring system	Application of an instrument for gathering information through the	RPOs and M&E Team of COMRURAL PIU.



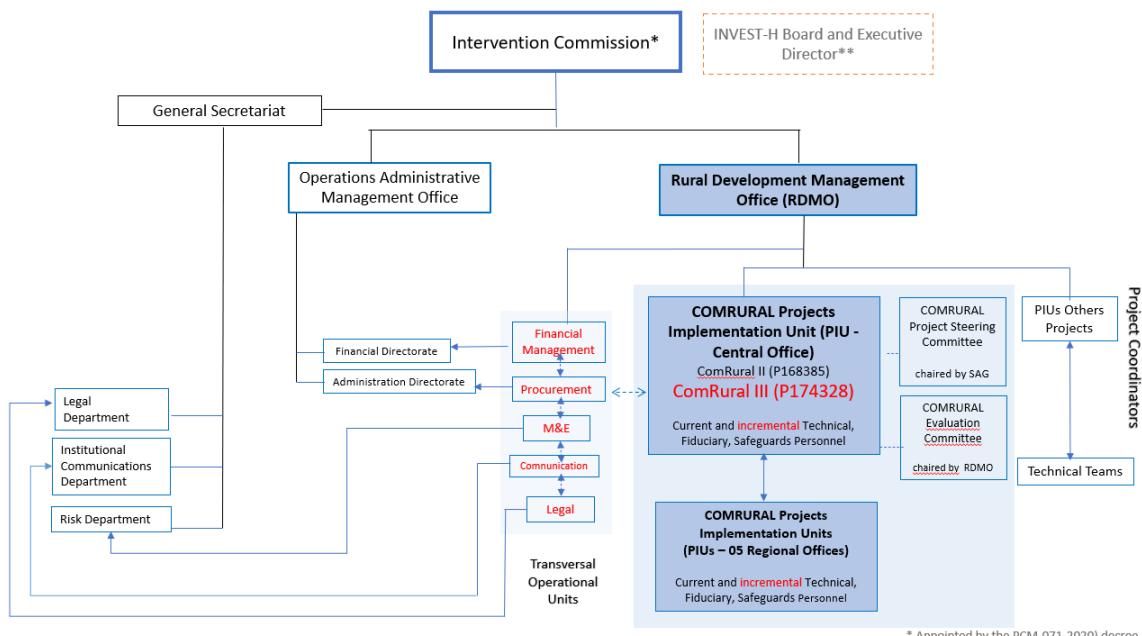
plan formulation process of whom women	areas who feel that project investments reflect their needs established during the participatory business plan formulation process			socialization of business plans.	
Project impact evaluation implemented	The evaluation measures the impact of the Project on the beneficiary RPOs	Final evaluation	Business plans, project monitoring system, and information provided by the beneficiary RPOs	The impact of the Project will be evaluated through a survey of a representative sample of beneficiary RPOs, taking into account the indicators and goals of the business plans.	External consulting firm, M&E Team of COMRURAL PIU.



## ANNEX 1: Implementation Arrangements and Support Plan

- 1. COMRURAL III will be implemented by Honduras Strategic Investment Office (*Inversión Estratégica de Honduras - INVEST-H*),** a public agency under the oversight of the General Government Coordination Secretariat. INVEST-H comprises a General Secretariat and three Management Offices which cover specific themes (Operations, Rural Development, and Infrastructure). The proposed Project will be implemented under the Rural Development Management Office.
- 2. Project implementation will be the responsibility of the same PIU that currently implements three WBG-financed agricultural projects,** including the ongoing COMRURAL AF (P101209), COMRURAL II (P168385), and PROSASUR (P148737). The PIU, supported by the Rural Development Management Office's transversal units for Procurement, Legal Affairs, Financial Management, and M&E, will be responsible for all fiduciary, ESF, communication, and M&E aspects of the proposed Project, and it will centralize all procurement activities and FM arrangements for implementing the proposed Project. The PIU will ensure compliance with the ESMF and related WBG E&S instruments, as well as M&E arrangements. INVEST-H, through the PIU, will coordinate with SAG, SENASA, and ARSA, during project implementation; these institutions will oversee preparation of the technical inputs for bidding documents and support the PIU with activities of supervision, auditing, and evaluation, along with any other activity as specified in the inter-institutional agreements to be signed between them and INVEST-H. SAG, SENASA, and ARSA will each appoint staff with specific responsibilities to interact directly with the PIU to carry out project activities, and support coordination of their respective subcomponents. A Project Steering Committee will be responsible for project oversight. It comprises representatives of INVEST-H, SAG, RPOs, and other private and public sector institutions that may be included as specified in the POM.

**Figure 1.1: Implementation arrangements for COMRURAL III**



█ Implementation arrangements within INVEST+H, and for the Rural Development Management office, and COMRURAL III

\* Appointed by the PCM-071-2020 decree  
\*\* Suspended by the PCM-071-2020 decree



**3. INVEST-H will strengthen capacity for environmental and social management within the PIU.** It will recruit additional environmental and social specialists/technicians to reinforce the PIU's monitoring, supervision, and reporting on implementation of the safeguard instruments (including the ESMF, SEP, and IPPF) and the Results Framework. These specialists and instruments will strengthen the system for the environmental and social aspects of the subprojects. Specialist contractors engaged by the PIU to support the development, implementation, and monitoring of business plans will also be required to have environmental and social specialists on their teams. The PIU environmental and social team will also benefit from a training workshop focused on safeguards, to be organized around the time that the Project is launched.

**4. The four regional offices that presently operate in COMRURAL cover 13 departments and support fiduciary, safeguard, and technical matters related to the preparation and implementation of business plans.** These four offices will be strengthened to ensure effective supervision of activities on the ground, as well as coordination with local agencies, governments, and other stakeholders. A fifth regional office will be established to support the geographical expansion of project activities in Olancho, Valle, and Yoro. The basic structure of a regional office will be described in the POM. The ultimate structure and composition of each office will be based on each region's business plan portfolio, which in turn will depend on the results of each public call for proposals.

### **Financial Management**

**5. FM arrangements for this Project will fundamentally remain the same as for its predecessors.** COMRURAL III will rely on current PIU staff, reinforced by additional FM personnel, including in the new regional office. The PIU is expected to continue making payments using GoH's SIAFI. In addition to the Financial Audit, a Compliance Audit will be conducted, following Terms of Reference acceptable to the Bank, to review: (i) eligibility of beneficiaries and goods purchased; (ii) accuracy of funds transferred to beneficiaries; (iii) application of procurement procedures; and (iv) depositing and full documentation of cash transfers to RPO bank accounts as per provisions of the POM. The GoH will make audited financial statements publicly available in a manner acceptable to the Bank; after formal receipt of these statements, the Bank will also make them available to the public in accordance with the World Bank Policy on Access to Information.

**6. INVEST-H through the PIU will ensure that the proposed Project is implemented in compliance with the Credit Agreement; with Bank safeguard, anti-corruption, and fiduciary requirements; and with the POM.** Supporting documentation—including procurement processes, contracts, orders, invoices, bills, receipts, and other documents evidencing reception of goods and services under eligible expenditures—will be readily available for the Bank team and external auditors. These documentations will be maintained for at least one year following receipt by the Bank of the final audited financial statement or two years after the Closing Date, whichever is later. Adjustments to the existing COMRURAL FM arrangements include: (i) an additional Designated Account (DA) will be opened and used only if the CERC is activated; (ii) payment and management procedures for the matching grant scheme, including strengthened controls on cash transfers to eligible beneficiaries, will be included in the POM; and (iii) the POM will include specific accounting practices for treating such matters as recording payments under Windows 1 and 4 of the expanded Component 1. The Bank will conduct at least two on-site FM supervision missions per year (including virtually during COVID-19) to assess the operation of the internal controls and the acceptability of the agreed FM arrangements, and will conduct desk reviews of interim unaudited financial reports, matching grant compliance review reports, and annual financial statement audit reports. A FM Action Plan, detailed in Table 1.1, has been agreed with the Recipient.

**7. Disbursements and flow of funds.** Project funds will be disbursed following the Disbursement Guidelines for Investment Project Financing, dated February 2017, and the additional instructions provided in the Disbursement and



Financial Information Letter (DFIL). The Project will open two segregated Designated Accounts (DAs) at the Central Bank of Honduras, in United States dollars, into which the funds will be deposited based on a six-month forecast. Amounts advanced into the first DA will be used to make payments for project works, goods, services and also for the provision of subproject matching grants. The second DA should be used exclusively for Component 4 and will be opened only if the CERC is activated. Disbursements for subprojects under Component 1 (Windows 2 and 3 or “agribusiness subprojects”) will be documented on the basis of transfers, following the implementation procedures for subprojects established in the POM. No transfer of funds to eligible beneficiaries is anticipated under agricultural subprojects (Windows 1 and 4), so disbursements will be made on a transaction basis, and documented expenditures for goods, works, services, training, and operating costs for each subproject will be paid.

**Table 1.1: Financial Management Action Plan**

1. Audit firm contracted to conduct bi-annual compliance audits of eligibility of beneficiaries, subproject transactions, flow of funds, and supporting documentation of expenditures.	Before submitting Withdrawal Applications for subprojects under Windows 1 or 4 of Component 1
2. POM is updated, acceptable to the Bank, to incorporate Payment Process and Beneficiary Selection guidelines for the small matching grants under Component 1, Windows 1 and 4.	By Effectiveness
3. Format and contents of interim unaudited financial reports (IFRs) approved by the Bank.	No later than 30 days after the Effectiveness Date
4. External auditors contracted.	No later than 3 months after the Effectiveness Date

## Procurement

8. **Procurement will be carried out in accordance with the “World Bank Procurement Regulations for IPF Borrowers,” dated July 2016 and revised in November 2020 (the “Procurement Regulations”).** The proposed Project will be subject to the World Bank’s Anticorruption Guidelines, dated October 15, 2006 (revised January 2011 and July 1, 2016). In accordance with paragraph 5.9 of the World Bank Procurement Regulations (Fourth Edition, November 2020), the WBG Systematic Tracking and Exchanges in Procurement (STEP) system will be used to prepare, clear, and update Procurement Plans and conduct all procurement transactions for the Project. The proposed Project will consider the application of measures to support sustainable procurement and gender equality in all procurement.

9. **The PIU will be strengthened with qualified procurement experts in accordance with the complexity of procurement activities.** Technical aspects of the envisaged procurement activities will require appropriate coordination among the technical and procurement units, to be detailed in the POM and implementation agreements specifying the roles and responsibilities of all parties. A Procurement Plan covering at least the first 18 months of project implementation has been prepared. The PSD has been developed to support attainment of the PDO and deliver value for money under a risk-based approach. To that end, the PSD includes a market analysis supporting the selection methods detailed in the Procurement Plan. Mandatory procurement prior review thresholds detailed in the World Bank Procurement Procedures, Annex I, will be observed. Standard Procurement Documents shall be used for all contracts subject to international competitive procurement and those contracts as specified in the Procurement Plan tables in STEP. For bidding processes using a national market approach, bidding document and requests for quotations documents have been agreed upon with the Bank at Negotiations. Procedures related to the procurement of subprojects will be updated to ensure more effective coordination in planning activities, bundle goods and services when feasible, and implement more strategic planning of procurement to achieve value for money. All procurement



procedures, including roles and responsibilities of different units and interaction with the audit board, will be defined within the POM.

**10. INVEST-H will have full fiduciary responsibility for the implementation of the Project.** This agency has prior experience with procurement procedures of multilateral organizations and has implemented several WBG-funded projects. During project preparation, the WB updated its capacity assessment of the PIU. The PIU will be strengthened with additional procurement specialists. The PIU regional offices will provide guidance, implementation support, and oversight to consulting firms or individuals that may be contracted to support implementation of Component 1.

**11. The transfer of non-reimbursable funds for subprojects to RPOs and their counterparts in productive alliances will occur under matching grant agreements between recipient organizations and INVEST-H on behalf of GoH.** The PIU will have fiduciary responsibility for transferring funds to RPOs. The Procurement Guidance for subprojects will specify the procurement procedures agreed between GoH and the WB related to all procurement processes implemented by RPOs and funded, partially or wholly, by the WB. The Procurement Guidance will include detailed activities required for each procurement method, thresholds for review by INVEST-H, and thresholds for review by the WB for processes with budgets surpassing the maximum thresholds for post review for the Project. After each public call for proposals, business plans will be selected following eligibility criteria for each Window set forth in the POM. The POM will include lessons learned from COMRURAL I and II to ensure procurement under subprojects is conducted transparently, fairly, and effectively. Standard documents for subproject procurement will be adjusted to reflect local market conditions and beneficiaries' needs.

**12. The Project will finance civil works, goods, consulting and non-consulting services, operating costs, training and grants.** Civil works include construction of stationary control posts, rehabilitation of infrastructure for hosting an IT system, rehabilitation of user support centers, construction and provision of equipment for a national laboratory to analyze processed foods and beverages, rehabilitation of a research center, and other minor construction or rehabilitation initiatives. Goods will include the purchase of mobile control posts, equipment for stationary control posts, vehicles, IT equipment, IT software, hardware for an IT system, and equipment for user support centers and global positioning systems, among others. Non-consulting services will include implementation of communication campaigns and printing of materials, among others. Consulting services will include preparation of business plans for RPOs, technical assistance, M&E services, design and supervision of civil works, and external auditing, among others. Operating costs refer to incremental expenses incurred in the course of implementing the Project and comprise communication costs, office supplies and maintenance, equipment maintenance, utilities, document duplication/printing, consumables, insurance, and costs of travel and per diem for project staff for travel linked to project implementation. They exclude the cost of consulting services and salaries of GoH civil service personnel. Training will include the costs for training and workshops, conducted under the Project, including tuition, travel and subsistence costs for training participants, costs associated with securing the services of trainers and speakers, rental of training and workshop facilities, preparation and reproduction of training materials, and other costs directly related to training course or workshop preparation and implementation (but excluding goods and consulting services). Grants will include grants made to an RPO to partially finance the cost of any given subproject subject to the specific terms and conditions set forth in the POM.

**13. Procurement Risk and mitigation measures.** The main risks identified at this stage for procurement include: (i) INVEST-H and PIU staff may lack relevant experience to perform their duties appropriately; (ii) a large number of procurement activities to be implemented for subprojects may create challenges in tracking and recording those procurement processes; and (iii) lack of capacity of the market to provide certain goods, services, or works due to increased local and international demand that may expose weaknesses in the supply chain and/or lead to significant price increases. These risks will be mitigated by: (i) enhancing the capacity of the implementing entity by engaging in



agreements and/or contracts with international firms to provide technical services; (ii) hiring additional experienced procurement and technical staff for the PIU; (iii) ensuring roles and responsibilities are clearly defined in the POM; (iv) using electronic procurement systems or apps such as SOL (online procurement solution) with simple and transparent methods to facilitate procurement processes, track procurement, and create consolidated records that provide a better understanding of providers; (iv) conducting yearly procurement audits of all procurement activities implemented under the Project, including INVEST-H and RPOs; and (v) performing targeted market analysis to identify potential providers/contractors for goods, services, and works and classify them according to their capacity, experience, and the type of goods, services, or works delivered.

**14. Frequency of procurement supervision.** In addition to prior review supervision, the WB will perform annual post-review missions (including virtually during remote work) with a sample of at least 20 percent of contracts. Additionally, a procurement audit of all procurement activities implemented under the Project will be conducted once a year.

## ANNEX 2: Detailed Project Description

### Component 1: Enhancing Competitiveness and Resilience in Prioritized Value Chains

1. **Component 1 supports competitive, innovative, climate-resilient, and nutrition-smart agribusiness initiatives (subprojects or business plans) in prioritized agri-food value chains under the productive alliance model.**
2. ***Subcomponent 1.1: Pre-investment for preparing subprojects.*** This subcomponent will support pre-investment activities to: (i) promote the proposed Project through outreach to RPOs, commercial partners, and private financing entities, form and formalize new RPOs, and identify, create, and consolidate productive alliances among RPOs and commercial partners; (ii) identify potential business opportunities for each productive alliance (business proposal); (iii) prepare business plans reflecting the opportunity selected; (iv) build the capacity of technical service providers to enhance the quality of services provided to productive alliances; (v) support project-related studies to promote specific, prioritized value chains and evaluate the potential for subproject investments to contribute to climate change mitigation and resilience and foster the economic inclusion of historically marginalized groups; and (vi) develop and implement communication strategies to support the formation of productive alliances that include small subsistence farmers, IPs, AD, women, youth, and persons with disabilities. It will finance works, goods, training, technical assistance, operational costs, and consulting and non-consulting services for the selection and preparation of selected subprojects (business plans).
3. ***Subcomponent 1.2: Productive investments in the implementation of subprojects.*** This subcomponent will support key investments and innovative approaches to improve the productivity, market access, and resilience of individuals in RPOs, as well as their partners and allies, participating in productive alliances under the proposed Project. Subcomponent 1.2 will provide matching grants to finance business plans selected under Subcomponent 1.1, encouraging the adoption of climate-smart, nutrition-smart innovations (see examples in Box 2.1), with a special emphasis in the Dry Corridor on water management subprojects. Matching grants will also finance climate-resilient and innovative complementary investments in small-scale agro-logistics services and infrastructure. The grants will support the implementation of subprojects, provision of technical assistance, and cover that portion of the alliance's business plan devoted to fixed capital (for example, plant, equipment, or minor infrastructure), working capital, technical assistance expenditures, and other investments to support improved productivity, processing capacities, agro-logistics, marketing, and sales. Depending on the nature of the subproject and the level of organization of the proposing RPO, business plans will qualify as either "agribusiness subprojects" (matching grant funds will be transferred to formal, organized RPOs for subproject implementation) or "agricultural subprojects" (INVEST-H will



implement the subproject on behalf of more informal RPOs with lower organizational capacity), according to criteria set forth in the POM. The productive alliances will facilitate participation by non-bank value-chain financiers and co-financing of business plans by financial institutions, also by coordinating with FONGAC for the provision of partial credit guarantees. The POM will describe procedures for such coordination.

**4. Subprojects will be identified and selected through a demand-driven, transparent mechanism.** The Project will facilitate periodic promotional activities to inform beneficiaries about the matching grant mechanism. Subproject initiatives that comply with defined technical, financial, social, and environmental parameters will receive specialized technical assistance to prepare business plans. Financial institutions will actively participate in preparing the business plans to facilitate the provision of co-financing. The criteria for selecting economically viable business plans will ensure the inclusion of women, IPs, ADs, and youth, and they will prioritize climate-smart investments for reducing GHG emissions and generating climate adaptation and mitigation (see Box 2.1 for examples by type of beneficiaries). Opportunities will be promoted in areas subject to significant outmigration. Eligibility criteria will not allow for investments in new irrigation schemes that rely on waters of international waterways: this stipulation will be included in matching grant manuals.

**5. To ensure transparency in the selection of business plans, the calls for applications will be public, and the business plans will be selected in accordance with the eligibility criteria and rating tables with defined scores established in the POM.** Business plans will be approved by an Evaluation Committee. The decisions of the Evaluation Committee will be ratified by the Project Steering Committee, made of representatives of (i) INVEST-H; (ii) SAG; (iii) producer organizations; (iv) the Honduran Council of Private Enterprise; and (v) other private and public sector institutions. Decisions will be made public. Non-approved business plans will receive feedback on the areas to be strengthened in their proposals and will receive visits by Project technicians who will encourage and support them to participate in the following calls for applications.

**6. COMRURAL III will leverage digital solutions.** Digital tools will be used to provide technical assistance, enhance commercial relationships between value-chain actors, and prepare business plans. They will also be used to provide e-extension on CSA and nutrition-smart agriculture. Ag-tech entrepreneurs will be encouraged to apply for grants under Window 4 to implement business plans involving digital solutions to improve information and/or services for RPOs. The Project will consider the limited access of the target population to digital technology (particularly vulnerable groups) and the technical accompaniment required to use it adequately.

**7. Component 1 will scale up the COMRURAL II approach to strengthen economic inclusion through:** (i) a producer graduation system implemented through three windows with different levels of matching grant financing, and (ii) a new grant window for developing small agro-logistics services that complement the producer investments. While subprojects will be demand-driven and open to all applicants who meet the eligibility criteria, selection criteria will encourage the participation of women, youth, IPs, ADs, and persons with disabilities under each of the four windows.

a. **Window 1 (subsistence agriculture)** will target informal groups of subsistence farmers to increase production and productivity, improve food security and nutrition, and enable them to start selling surplus production. This window will also finance the adoption of climate-smart practices, such as farmer-led irrigation and micro-works projects for watershed management that protect against drought and mitigate the impact of soil erosion. Given the vulnerability of the target beneficiaries, this window will provide grants to beneficiaries, while requiring some level of beneficiary contributions, which could be in-kind.<sup>35</sup> Investments under this window facilitate the formalization, growth, and strengthening of producer groups, preparing them to graduate to Window 2. In

<sup>35</sup> Examples of in-kind contributions include labor force, land, construction material, productive inputs such as organic fertilizer, vehicles, and costs relative to the legal paperwork required for the formalization of RPOs.



recognition of the challenges faced by women, youth, ethnic groups, and persons with disabilities, Window 1 will encourage their participation and support formalization of their RPOs through targeted technical assistance.

- b. **Window 2 (transitioning agriculture)** will target producers who are organized in formal RPOs, practice agriculture as their main livelihood, and aim to complete the transition to commercially-oriented production. This window applies the COMRURAL II model and will use the same criteria for selecting beneficiaries. Investments will focus on innovative approaches to improve access to markets (for example, approaches to increase production and competitiveness, market surplus production, encourage diversification, and boost value addition) and promote climate-smart practices both on the farm and in agro-logistics throughout the value chain. This window will require private co-financing of at least 40 percent of the total budget of the business plan.
- c. **Window 3 (commercially oriented agriculture)** will target formal RPOs with a commercial orientation and the potential to scale up and contribute to job generation, rural economic growth, and adoption of climate-smart practices. Investments will focus on innovations that scale up and expand agribusiness, create jobs, and stimulate the rural economy. This window will require private co-financing of at least 60 percent of the total budget of the business plan.
- d. **Window 4 (small agro-logistics and agricultural services complementary to production)**. This window will be directed to formal and informal organizations constituted to provide agro-logistics goods or services to primary producers (non-primary-production business plans to create or expand small companies that provide services or support product sales for local primary producers). Investments may include sales of seed, seedlings, and trees; grafting services; rental of machinery for plowing, sowing, and harvesting; post-harvest storage; warehouse services with controlled temperature; cold transport; and platforms that connect producers with markets (domestic and export). These investments will support climate mitigation and adaptation approaches, including by reducing food loss and waste.

## Component 2: Strengthening Institutions for Improving the Agribusiness Environment

7. **Component 2 will support the modernization and strengthening of selected public services by improving the regulatory framework for agribusiness and the capacity of public sector institutions to promote a competitive agribusiness sector.** This component will enable the smooth functioning of business plans financed under Component 1 by ensuring that those plans can comply with the certifications, environmental licensing, and food safety standards necessary to conduct their activities. The component is structured into two subcomponents:

8. **Subcomponent 2.1: Improving selected public agribusiness services.** Subcomponent 2.1 aims to improve the agribusiness enabling environment via support to SENASA and ARSA, the main institutions providing public services for agribusiness.<sup>36</sup> This support will improve RPOs' product quality, market access, and returns over time, as quality and consistency standards improve. For **SENASA**, this subcomponent will support the rehabilitation of a small laboratory, the implementation of a digital system for phytosanitary and zoosanitary certification, and a national agricultural, aquaculture, and fishing traceability and registration system, which will enhance the monitoring and follow-up of practices harmful to the environment and contribute to reductions in FLW, thereby increasing climate adaptation and mitigation.<sup>37</sup> For **ARSA**, this subcomponent will finance construction and equipment of an internationally accredited national laboratory, as well as three mobile laboratories for rapid food and beverage analysis, which will also contribute to monitoring the impact of climate change on food and beverage production (for instance, pest infestations

<sup>36</sup> Other institutions may also be supported under the Project.

<sup>37</sup> Investments in traceability systems will help reduce FLW by promoting food-chain transparency, so that all actors along the chain can ensure food safety and quality and prevent FLW. Also, data collected through both SENASA and ARSA will enable users to understand observed impacts of climate change on agricultural systems, including aquaculture and fisheries.



exacerbated by climate change) and to reducing FLW. Both ARSA and SENASA laboratories will be built/rehabilitated according to energy-efficiency standards (such as retrofitting infrastructure to use a cooling agent with lower global warming potential) and to ensure infrastructure resilience and improved continuity of lab services during and after extreme weather events, including other climate-related events such as floods. Because they can be moved to adapt to such events, this will be especially true for the mobile laboratories, which will also use renewable fuels to the extent possible.

9. ***Subcomponent 2.2: Improving public-private coordination of policies for agribusiness.*** Subcomponent 2.2 seeks to enhance cooperation between the public and private sector to develop policies, regulations, and information to improve the enabling environment for agribusiness. It will facilitate the investments required to strengthen the governance and operations of SAG and to enhance information systems on agriculture, agribusiness, and rural economies, including their climate resilience and mitigation, to inform practices and policies. It will finance works, goods,<sup>38</sup> training, technical assistance, operational costs, and consulting and non-consulting services for SAG to: (i) design a governance structure and operational functions for a National Agricultural Council (NAC) and Technical and Business Unit;<sup>39</sup> (ii) prepare a National Agro-logistics Strategy;<sup>40</sup> (iii) design a National Agro-Climatic Information System (NACIS) under NAC that combines biophysical information from remote sensing, real-time weather data, and information on the local agricultural context to inform stakeholders, also improving their knowledge of climate impacts and adaptation potential; and (iv) create a national registry of producers in agricultural value chains, to support the formalization of RPOs and effective decision-making.<sup>41</sup>

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<sup>38</sup> Equipment will be energy efficient and works will be climate resilient to ensure continuity during and after climate induced events.

<sup>39</sup> NAC will provide a platform for public-private dialogue on enabling the agribusiness environment. Among other functions, it will constitute a forum for sector dialogue and public-private coordination on climate vulnerabilities of agriculture and on actions to promote climate adaptation and mitigation.

<sup>40</sup> This strategy will identify bottlenecks based on robust projections of the development of the main value chains, to identify priority areas for investment. As such, the strategy will also be instrumental in promoting investments to address risks related to climate change, and in encouraging energy efficiency and reduction of GHG emissions as part of the development of key value chains.

<sup>41</sup> The registry will be fundamental in generating systematic information on participation in agricultural value chains along gender and ethnic lines, and on climate vulnerabilities and impacts, and in taking action to promote inclusion as well as climate adaptation and mitigation.

**Box 2.1: Investing in innovations to improve climate adaptation/mitigation and nutrition**

Subprojects under Component 1 will promote innovative technologies and practices to support climate-smart, nutrition-smart agriculture. They will reduce the vulnerability of rural households—especially the poorest—to the food, nutrition, and income insecurity that is exacerbated by climate change impacts and natural disasters, including droughts, pests, and hurricanes. Menus for climate-smart and nutrition-smart agriculture will be detailed in the POM, with attention to subregional specificities and with specific consideration for areas and value chains that are particularly significant for IPs and ADs. These innovations will be accessible to a wide range of users, and their design will reflect the educational, skill, and resource gaps of the most vulnerable beneficiaries.

**Climate adaptation and mitigation.** Subproject investments, regardless of the window they are under, will boost the adoption of climate-smart technologies and natural resource management practices, which will reduce the GHG emissions of the value chains associated with the proposed Project and promote climate resilience by addressing vulnerabilities in the agricultural sector, including related to droughts, pests, and hurricanes. Examples of technologies and practices supported under different matching grant windows include:

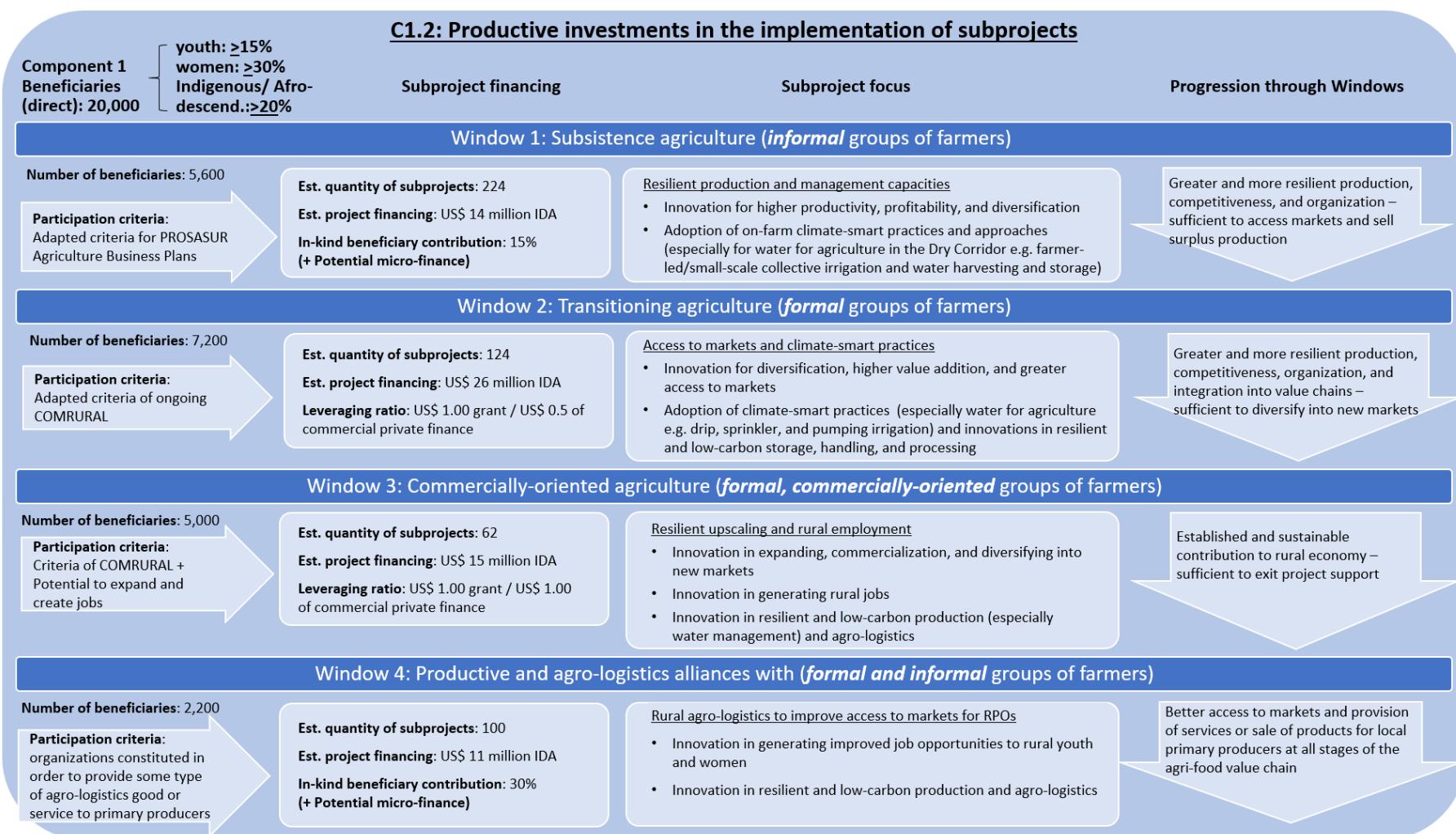
- Silvopastoralism, sustainable pasture management, climate-resilient fodder production strategies, and improved livestock management (health, genetics, feeding) (Window 1).
- Soil and watershed management practices that reduce erosion and limit evapotranspiration (Window 1).
- Efficient water-use techniques, including the development of farmer-led, small-scale irrigation systems to increase the resilience of rainfed agriculture; water harvesting and water storage; construction and collective management of small-scale irrigation and drainage systems (Window 1).
- Use of seed varieties that are more suited to climate change and climate variability (Windows 1, 2, 3).
- Land management practices to rehabilitate degraded areas for crop production (Windows 1, 2, 3).
- On-farm irrigation technologies—primarily drip/sprinkler irrigation—that increase water productivity and savings (Windows 2, 3).
- Low-cost, energy-efficient (solar) pumping systems (Windows 2, 3).
- Biogigesters (with livestock manure) and facilities for composting crop residues (Windows 2, 3).
- Energy-efficient cold storage, handling, and processing facilities (Windows 2, 3, 4).
- Reduced fossil fuel use in power generation (Windows 2, 3, 4).
- Climate-resilient, energy-efficient infrastructure: warehouses, post-harvest storage, cold chain (Window 4).
- Energy-efficient transport and machinery (Window 4).
- Sale of seed varieties more resistant to climate change and variability (Window 4).

**Improved nutrition.** Nutrition-smart agriculture consists of agricultural and agro-processing technologies and practices that improve nutrition while increasing farm and agribusiness productivity and income. Examples of nutrition-smart agricultural technologies and practices supported under Component 1 include:

- New production, processing, and post-harvest techniques for specific value chains and crops, such as beans, poultry, eggs, fruits and vegetables with high nutritional value, and biofortified crops that address micronutrient deficiencies, increase protein intake, and improve overall nutritional status.
- Practices and behaviors focused on increasing food safety, reducing food loss and waste, increasing post-harvest processing, and improving nutrition and hygiene, with the goal of diversifying diets and producing more nutritional foods in less time (which will also build food reserves).



**Figure 2.1: Progression of beneficiaries from subsistence to transitioning to commercially oriented agriculture and productive and agro-logistics alliances under Subcomponent 1.2**





**ANNEX 3: Project Costs by Component and Source of Financing**

Component	IDA Credit	Private commercial finance and micro-finance	Beneficiary contributions (in-kind or cash)	Total	Business plans	Direct beneficiaries	Indirect beneficiaries
						(US\$ million)	(Number)
<b>1</b>	<b>Enhancing Competitiveness and Resilience in Prioritized Value Chains</b>	<b>78</b>	<b>28</b>	<b>18.10</b>	<b>124.10</b>	<b>510</b>	<b>20,000</b>
1.1	Pre-investment for the preparation of subprojects	12	-	-	12.00	-	-
1.2	Productive investments in the implementation of subprojects	66	28	18.10	112.10	510	20,000
	<i>Window 1: Subsistence agriculture</i>	14	0	2.47	16.47	224	5,600
	<i>Window 2: Transitioning agriculture</i>	26	13	4.33	43.33	124	7,200
	<i>Window 3: Commercially-oriented agriculture</i>	15	15	7.50	37.50	62	5,000
	<i>Window 4: Small agro-logistics and agricultural services complementary to production</i>	11		3.80	14.80	100	2,200
<b>2</b>	<b>Strengthening Institutions for Improving the Agribusiness Environment</b>	<b>12</b>	-	-	<b>12.00</b>	-	<b>2,500</b>
<b>3</b>	<b>Project Management Support</b>	<b>10</b>	-	-	<b>10.00</b>	-	-
<b>4</b>	<b>Contingency Emergency Response Component (CERC)</b>	<b>0</b>	-	-	-	-	-
	<b>Total</b>	<b>100</b>	<b>28</b>	<b>18.10</b>	<b>146.10</b>	<b>510</b>	<b>22,500</b>
							<b>66,000</b>



#### ANNEX 4: The COMRURAL Series: Key Differences and Innovative Features

	<b>COMRURAL I (P101209) - US\$23M &amp; COMRURAL I AF (P158086) - US\$25M</b>	<b>COMRURAL II (P168385) - US\$75M</b> Restructuring pending after the activation of the CERC component for US\$ 20.96 million	<b>COMRURAL III (P174328) - US\$100M</b>
<b>PDO</b>	To contribute to <b>increased productivity and competitiveness</b> among organized rural small-scale producers through their participation in productive alliances	To improve <b>access to markets and climate-smart practices</b> and contribute to the <b>economic inclusion</b> of targeted beneficiaries in select agricultural value chains	(i) to contribute to <b>market access, adoption of climate-smart approaches, and job creation</b> in support of project beneficiaries in selected agri-food value chains and (iii) in case of an Eligible Crisis or Emergency, to respond effectively to it.
<b>Geographical scope</b>	<b>7 departments</b> Comayagua, Copán, Intibucá, La Paz, Lempira, Ocotepeque and Santa Bárbara	<b>13 departments</b> COMRURAL I departments + Francisco Morazán, El Paraíso, Choluteca, Cortés, Atlántida and Colón	<b>16 departments</b> COMRURAL II departments + Olancho, Valle, and Yoro
<b>Beneficiaries</b>	Direct: <b>7,200 families</b> (136% over target of 5,280). 28% women, 42% IPs/ADs, 12% youth <u>AF-</u> Total: <b>35,750</b> (5,680 direct and 30,250 indirect) 25% woman, 21% IPs/ ADs, 13% youth	Total: <b>50,700</b> (18,000 direct and 31,000 indirect) 25% woman, 10% IPs/ ADs, 10% youth	Total: <b>88,500</b> (22,500 direct and 66,000 indirect) 30% woman, 20% IPs/ADs, 15% youth
<b>Component 1</b>	Support to productive investments: <b>support pre-investment activities</b> to promote project concept and outreach, create and consolidate PAs, identify business opp ortunities, prepare BPs and build capacity of TA providers	Identification and preparation of BPs Graduation scheme to foster the transition to higher value family farming: <b>W1: Subsistence agriculture</b> <b>W2: Transitioning agriculture</b> <b>W3: Commercially oriented agriculture</b>	Consolidation and expansion of the graduation scheme. Scaling-up to non-traditional value chains <b>W1: Subsistence agriculture</b> <b>W2: Transitioning agriculture</b> <b>W3: Commercially oriented agriculture</b> <b>W4: Small agro-logistics, agricultural services complementary to production</b>
<b>Component 2</b>	Provide <b>subproject grants to co-finance</b> the implementation of approximately 150 feasible business plans formulated under Component 1.	Support to the <b>modernization of agribusiness enabling environment</b> by improving (i) selected public agribusiness services and (ii) public-private coordination on policies for agribusiness	Strengthening institutions for improving the agribusiness environment by improving (i) selected public agribusiness services and (ii) public-private coordination on policies
<b>Cross-cutting themes</b>	Expected social outcomes: social inclusion, empowerment (demand-driven approach), reduced vulnerability, and gender equality	Support <b>competitive, innovative, and climate-resilient</b> agribusiness initiatives. Gender tagged	Promote competitive, innovative, climate-resilient, <b>nutrition-smart</b> agribusiness initiatives, the adoption of <b>digital technologies</b> and <b>green job creation</b> . Inclusion of <b>persons with disabilities</b> and strengthened <b>gender tag</b>
<b>PCM</b> (Private Capital Mobilized per dollar invested as part of a PA)	0.914 in Comrural I and 1.23 in the AF	1.64	0.97 Due to diversification to new value chains and territories, and possible reduced appetite for lending among commercial banks given the economic scenario created by the pandemic and topical storms



## ANNEX 5: COMRURAL III Gender Action Plan

### Institutional Gender Framework

1. The Government Strategic Plan (PEG, 2018–22) is the medium-term planning tool for meeting the national vision expressed in the *Visión de País* (2010–38) and the corresponding indicators set forth in the *Plan de Nación* (2010–22). The PEG contains guidelines for mainstreaming gender equality to further the recognition and full integration of Honduran women in all areas of national life under conditions of equal opportunity. The Gender Office within SAG is developing a new policy on gender equity in the agricultural sector (*Política de Equidad de Género en el Sector Agrícola*) to mainstream a gender approach in all agri-food sector actions in Honduras. The policy reflects GoH's commitment to gender equality and equity. It complements other sector strategies promoting agri-food value chains, and public policies on youth, IPs, and ADs.

### Gender Gaps in Honduran Agricultural Value Chains

2. **Agricultural sector:** Within family farming, women play a leading role in decision-making and in contributing knowledge and labor, whether as heads of households or as unpaid family members. They participate in productive activities, carry out transformation activities, add value to products, and engage in marketing.

3. **Time use:** In May 2009, for the first and only time (to date), Honduras included a module on women's use of time in the Permanent Multi-Purpose Household Survey. The data revealed large time-use differences between men and women: in urban areas, the gap in weekly time dedicated to paid work is 6 hours between men (43.10 hours) and women (37.10 hours); in rural areas it is 11 hours (men: 38.50 hours; women: 27.47 hours).<sup>42</sup> Women are more involved in domestic work in rural than in urban areas (91.3 percent vs. 86 percent), while men participate less (rural: 41 percent vs. urban: 46 percent).<sup>43</sup>

4. **Poverty, earnings, and labor market:** Poverty affects women to a greater extent than men.<sup>44</sup> In the case of female-headed households, the percentage of poor households is 54.5 percent.<sup>45</sup> According to the Social Forum for the External Debt of Honduras (2018), of the more than 250,000 Honduran poor families, 44 percent lived in extreme poverty: the majority were headed by women aged 18–35. Female labor force participation (52 percent) in 2019 was much lower than male participation (86 percent), especially among women aged 15–24. Women employees receive lower average wages than men.

5. **Occupations, entrepreneurship, and productive choices:** Less access to credit means that women are less able to invest in expensive productive, post-harvest, and/or processing equipment, leading to an artificial specialization of tasks along gender lines. Although men and women perform different tasks along value chains, men are generally more involved in higher-value-added tasks requiring more capital investment. In general terms, women tend to be more involved in the production stage of different value chains, since they can remain closer to home and production activities can be better coordinated with household activities. However, women are generally excluded from transformation and processing activities.

6. **Association:** In 2018, barely 7.4 percent of mayors in Honduras were female, the second-lowest rate in Central America after Guatemala. At the same time, Honduran rural women's organizations play an important political role in the struggle for land and respect for their rights. Currently about 16 rural women's organizations operate at the national

<sup>42</sup> INE, UNIFEM, Women's Economic Agenda Program (2010), "Boletín: Uso del Tiempo en Honduras."

<sup>43</sup> INE, UNIFEM, Women's Economic Agenda Program (2010).

<sup>44</sup> OIG, CEPAL. "Honduras. Country Profile."

<sup>45</sup> European Union (2018), "Conducting a Gender Analysis of Honduras."



level, along with several organizations with mixed (male and female) membership and leadership that share the objectives of the women's organizations. For example, seven departments of southern Honduras have about 300 mixed organizations with a total membership of 19,500, 39 percent of whom are women.<sup>46</sup>

7. **Access to finance:** Gaps in women's access to credit persist. Commercial banks have the lowest share of loans to women (36.3 percent), followed by financial companies (37.8 percent) and Private Financial Development Organizations (40.8 percent).<sup>47</sup> State banks do not consider rural women's access to credit to be a priority, so women are relegated to seeking microcredit through rural savings banks, sometimes without success.<sup>48</sup> The higher interest rates charged on loans to women also act as a disincentive to seeking credit. Average rates on commercial loans are higher for women (40.1 percent) than for men (34.5 percent), although the gap is lower for microcredit (women: 40 percent; men: 36.3 percent).<sup>49</sup>

8. **Gender-based violence (GBV):** Honduras tops the list of Latin American countries in terms of violent deaths of women and femicides per 100,000 inhabitants, registering a rate of 13.3 percent in a 2014 survey (ECLAC 2016). Among ever-partnered Honduran women aged 15–49, 27.8 percent had experienced intimate partner physical and/or sexual violence at least once, and 11 percent in the last 12 months.<sup>50</sup> Violence against women is widespread and systematic in Honduras, and important challenges persist that limit its effective prevention, such as high levels of impunity, the low proportion of women affected by violence who seek protection and institutional help, and the lack of comprehensive policies to address it.

### Gender Action Plan within COMRURAL III

9. **Overarching goal:** The Gender Action Plan for the proposed Project is designed to ensure: (i) that women's needs, concerns, and aspirations are duly considered, so that they can effectively participate in project activities and fully benefit from their participation; and (ii) that the proposed Project helps to close gender gaps in human endowments, jobs, ownership, and control of assets, and promotes the participation and empowerment of women and youth. The overall achievement of this goal will be measured through the Project-level Women's Empowerment in Agriculture Index (Pro-WEAI), a survey-based index for measuring empowerment, agency, and inclusion of women in the agricultural sector. Pro-WEAI consists of 12 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. A range of actions is foreseen under the proposed Project to close the identified gender gaps and achieve the goals laid out in the Gender Action Plan, as described next.

#### **Component 1: Enhancing Competitiveness and Resilience in Prioritized Value Chains**

10. The development of business plans for investment subprojects is a demand-driven process, meaning that communication is vital to secure women's participation. Each business plan submitted for approval is supported by an Environmental and Social Plan that provides an opportunity to demonstrate how the subproject will accommodate gender inclusion and close gender gaps. A communication strategy will be developed to inform women in different project territories and value chains about Component 1 activities and encourage their participation. A special effort will

<sup>46</sup> SAG. Emprendesur and Prolenca projects in Francisco Morazán, La Paz, El Paraíso, Choluteca, Valle, Intibucá and Lempira, 2019–20.

<sup>47</sup> National Commission of Banks and Insurance (2020).

<sup>48</sup> Irias, Gustavo (2013), "The situation of poor rural women in Honduras and their access to land and credit." *Agrarian Platform* (p. 10).

<sup>49</sup> CNBS (July 2020), "Report on Financial Inclusion in Honduras."

<sup>50</sup> Honduras Ministry of Health, National Institute of Statistics (INE) and ICF International (2013), National Survey of Health and Demography 2011–2012. Tegucigalpa.



be made to involve married women, who are not usually considered “real” producers in their own right. The proposed Project will rely as much as possible on non-written communication to compensate for low literacy rates among women, especially elderly, IPs, and ADs women (for example, using megaphones to ensure that even the most isolated households hear about activities).

11. The Project will encourage vulnerable groups to submit business plans by promoting the creation of groups and cooperatives by women, people aged 18 to 30, IPs, and ADs. The proposed Project will also consider the intersectionality and heightened challenges faced by persons who pertain to more than one vulnerable group, such as young IP/AD women with disabilities. It will form and support these groups with targeted training and capacity building to reduce gender gaps related to entrepreneurship, association, and human capital. The proposed Project will also assist women’s groups, groups led by women, and agribusinesses or agro-industries with women’s participation to develop business proposals that meet the requirements for matching grants. This will help to compensate for gender gaps in terms of wealth levels (income and assets) and entrepreneurship. Field technicians and extensionists will be trained to address employment and human capital gaps.

12. Under Window 4, consideration will be given to young, female entrepreneurs to reduce the entrepreneurship gap and overcome stereotypes that women are not entrepreneurial. Specific outreach will focus on opportunities for women in productive, agribusiness, and agro-industrial jobs to overcome stereotypes that women are less capable and fit for these jobs.

13. **Results Framework:** (i) 30 percent of beneficiaries participating in business plans under the Project are women; (ii) Women-tailored training events implemented to provide additional support to their enterprises; (iii) Women beneficiaries demonstrating an improvement in empowerment (PRO-WEAI).

### ***Component 2: Strengthening Institutions for Improving the Agribusiness Environment***

14. Institutional strengthening under Component 2 will include Project-sponsored participation in gender-specific training for selected SENASA, ARSA and SAG staff, as well as INVEST-H staff (at the headquarters and territorial level), service providers, and RPOs, to ensure coordination and close collaboration in reducing gender gaps in Honduras. Institutional strengthening of INVEST-H will: (i) ensure that INVEST-H data collection tools are revised to provide reliable, systematic gender statistics from the participating RPOs to provide a better understanding of gaps related to gender (and IPs/ADs) and in particular to support data collection for calculating Pro-WEAI indicators; and (ii) strengthen the gender strategy.

15. **Results Framework:** (i) National Registry of value-chain agricultural producers created: will provide data on women producers and their geo-localization in specific value chains; (ii) INVEST-H develops and issues its gender strategy.

### ***Component 3: Project Management Support***

16. Time and location of meetings. Any meeting that the proposed Project conducts to share information or to register potential beneficiaries will preferably happen at times and in locations and conditions that consider women's schedules and safety. This action will prevent women from limiting their participation owing to concerns about security, their burden of work, and household chores. The proposed Project could also propose a childcare option and a small stipend to cover transportation costs. Gender training (institutional). To ensure gender inclusion across project activities, different types of training will be organized to sensitize all project team members and recruited operators, which may include training to raise awareness that gender may be non-binary. Gender training (community level). To encourage all genders as agents of change to partake in actions against negative stereotypes and behaviors, the proposed Project will invite women, couples, and male and female leaders from local communities in Project sites to participate in gender-



sensitivity training. This training will contribute to lessening gender stereotypes and social norms, indirectly reducing GBV. *Grievances and citizen engagement*. The POM will give special attention to women and, more generally, vulnerable groups such as the elderly, IPs, and ADs, who have lower rates of digital literacy.<sup>51</sup> In other WBG projects, vulnerable groups have chosen female ambassadors in their community with greater IT capacity to be the interface between the project IT platforms and beneficiaries.

**17. Results Framework:** (i) Indigenous Peoples/Afro-Descendants in project areas who feel that project investments reflect their needs established during participatory planning, of whom women account for 50 percent. (ii) Project impact evaluation implemented (Yes/No): will provide evidence of the positive impact of the COMRURAL Project series on rural producers in general, and on youth, women, IPs, and ADs in particular.

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<sup>51</sup> This implies the design of tools using a human-centric way to improve technical usability and ensure cultural appropriateness.



## ANNEX 6: Project Contribution to Climate Change Adaptation and Mitigation

Activity	Adaptation	Mitigation
<b>Component 1: Enhancing Competitiveness and Resilience in Prioritized Value Chains</b>		
<b>Subsistence agriculture (matching grant Window 1)</b>	<ul style="list-style-type: none"> <li>▪ Climate-resilient, resource-efficient, and energy-efficient investments (including use of renewable energy whenever possible)</li> <li>▪ Reduction in food FLW</li> <li>▪ Technical assistance on climate-smart and energy- and resource-efficient technologies and infrastructure</li> <li>▪ Technical assistance on CSA and general climate adaptation principles</li> <li>▪ Climate vulnerability analysis and risk assessment of business plans</li> <li>▪ Increased climate resilience of diets through nutrition-sensitive approaches and promotion of local production</li> <li>▪ Development and use of e-extension services on CSA</li> <li>▪ Specific focus on smallest agri-food economic units, most susceptible to climate change</li> <li>▪ Targeted actions for climate-vulnerable groups</li> </ul>	<ul style="list-style-type: none"> <li>▪ Resource- and energy-efficient investments (including use of renewable energy whenever possible)</li> <li>▪ Reduction in FLW</li> <li>▪ Reduced emissions resulting from more efficient food transport</li> <li>▪ Promotion of renewable energy sources</li> <li>▪ Technical assistance on climate-smart and energy- and resource-efficient technologies and infrastructure</li> <li>▪ Technical assistance on CSA and on climate mitigation principles</li> <li>▪ Climate mitigation screening of business plans</li> <li>▪ Reduced “food miles” from long-distance food transport through promotion of local production</li> <li>▪ Development and use of e-extension services on CSA</li> </ul>
<b>Transitioning agriculture (matching grant Window 2)</b>	<ul style="list-style-type: none"> <li>▪ Climate-resilient, resource-efficient, and energy-efficient investments (including use of renewable energy whenever possible)</li> <li>▪ Reduction in FLW</li> <li>▪ Technical assistance on climate-smart and energy- and resource-efficient technologies and infrastructure</li> <li>▪ Technical assistance on CSA and on general climate adaptation principles</li> <li>▪ Promotion of export market opportunities to incentivize climate-smart, environmentally friendly production</li> <li>▪ Climate vulnerability analysis and risk assessment of business plans</li> <li>▪ Increased climate resilience of diets through nutrition-sensitive approaches and promotion of local production</li> <li>▪ Strengthened climate resilience for producers (more resilient livelihoods) via improvement in local market infrastructure</li> <li>▪ Strengthened climate resilience for consumers (enhanced food security through better access to food) via improvement in local market infrastructure</li> <li>▪ Development and use of e-extension services on CSA</li> <li>▪ Targeted actions for climate-vulnerable groups</li> <li>▪ Enhanced shock response capacity through improved financial inclusion</li> </ul>	<ul style="list-style-type: none"> <li>▪ Resource- and energy-efficient investments (including use of renewable energy whenever possible)</li> <li>▪ Reduction in FLW</li> <li>▪ Reduced emissions resulting from more efficient food transport</li> <li>▪ Promotion of renewable energy sources</li> <li>▪ Technical assistance on climate-smart and energy- and resource-efficient technologies and infrastructure</li> <li>▪ Technical assistance on CSA and on climate mitigation principles</li> <li>▪ Promotion of export market opportunities to incentivize climate-smart, environmentally friendly production</li> <li>▪ Climate mitigation screening of business plans</li> <li>▪ Reduced “food miles” from long-distance food transport through promotion of local production</li> <li>▪ Development and use of e-extension services on CSA</li> </ul>
<b>Commercially-oriented agriculture (matching grant Window 3)</b>	<ul style="list-style-type: none"> <li>▪ Promotion of climate-smart and resource- and energy-efficient innovation</li> <li>▪ Reduction in FLW</li> <li>▪ Technical assistance on climate-smart and energy- and resource-efficient technologies and infrastructure</li> <li>▪ Technical assistance on CSA and on general climate adaptation principles</li> </ul>	<ul style="list-style-type: none"> <li>▪ Promotion of climate-smart and resource- and energy-efficient innovation</li> <li>▪ Reduction in FLW</li> <li>▪ Reduced emissions resulting from more efficient food transport</li> <li>▪ Promotion of renewable energy sources</li> <li>▪ Technical assistance on climate-smart and energy-</li> </ul>



Activity	Adaptation	Mitigation
	<ul style="list-style-type: none"> <li>▪ Promotion of export market opportunities to incentivize climate-smart, environmentally friendly production</li> <li>▪ Climate vulnerability analysis and risk assessment of business plans</li> <li>▪ Targeted actions for climate-vulnerable groups</li> <li>▪ Enhanced shock response capacity through improved financial inclusion</li> </ul>	<ul style="list-style-type: none"> <li>and resource-efficient technologies and infrastructure</li> <li>▪ Technical assistance on CSA and on climate mitigation principles</li> <li>▪ Promotion of export market opportunities to incentivize climate-smart, environmentally friendly production</li> <li>▪ Climate mitigation screening of business plans</li> </ul>
<b>Small agro-logistics services complementary to production (matching grant Window 4)</b>	<ul style="list-style-type: none"> <li>▪ Promotion of climate-smart and resource- and energy-efficient innovation</li> <li>▪ Reduction in FLW</li> <li>▪ Technical assistance on climate-smart and energy- and resource-efficient technologies and infrastructure</li> <li>▪ Technical assistance on CSA and on general climate adaptation principles</li> <li>▪ Climate vulnerability analysis and risk assessment of business plans</li> <li>▪ Targeted actions for climate-vulnerable groups</li> <li>▪ Enhanced shock response capacity through improved financial inclusion</li> <li>▪ Strengthened local food supply chains</li> </ul>	<ul style="list-style-type: none"> <li>▪ Promotion of climate-smart and resource- and energy-efficient innovation</li> <li>▪ Reduction in FLW</li> <li>▪ Reduced emissions from inefficient food transport</li> <li>▪ Promotion of renewable energy sources</li> <li>▪ Technical assistance on climate-smart and energy- and resource-efficient technologies and infrastructure</li> <li>▪ Technical assistance on CSA and on climate mitigation principles</li> <li>▪ Climate mitigation screening of business plans</li> <li>▪ Reduced “food miles” from long-distance food transport through promotion of local production</li> </ul>
<b>Component 2: Strengthening Institutions for Improving the Agribusiness Environment</b>		
<b>SENASA: Investments in sanitary and phytosanitary (SPS) and traceability systems</b>	<ul style="list-style-type: none"> <li>▪ Incentives to adopt sustainable, climate-smart practices arising from the creation of markets for sustainable products, driven by improved information systems</li> <li>▪ Reduction in FLW</li> <li>▪ Improved pest detection capacity through enhanced information systems and public laboratories</li> </ul>	<ul style="list-style-type: none"> <li>▪ Better monitoring and follow-up of practices harmful to the environment and climate through improved information systems</li> <li>▪ Incentives to adopt sustainable, climate-smart practices arising from the creation of markets for sustainable products, driven by improved information systems</li> <li>▪ Reduction in FLW</li> </ul>
<b>ARSA: Investments in laboratory infrastructure</b>	<ul style="list-style-type: none"> <li>▪ Incentives to adopt sustainable, climate-smart practices arising from the creation of markets for sustainable products, driven by improved information systems</li> <li>▪ Reduction in FLW</li> <li>▪ Improved pest detection capacity through enhanced information systems and public laboratories</li> </ul>	<ul style="list-style-type: none"> <li>▪ Better monitoring and follow-up of practices harmful to the environment and climate through improved information systems</li> <li>▪ Incentives to adopt sustainable, climate-smart practices arising from the creation of markets for sustainable products, driven by improved information systems</li> <li>▪ Reduction in FLW</li> </ul>
<b>SAG: Institutional strengthening of key public sector institution in the agri-food system</b>	<ul style="list-style-type: none"> <li>▪ Studies and assessments related to modern, climate-smart, and sustainable agro-industrialization for improved resource efficiency and climate resilience</li> <li>▪ Improved climate monitoring and early warning systems thanks to better estimation methods for national agricultural statistics</li> <li>▪ Improved decision-making in food security and resilient rural strategies through updated information from new household survey with agriculture module</li> <li>▪ Capacity building on FLW and climate change adaptation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Studies and assessments related to modern, climate-smart, and sustainable agro-industrialization for improved resource efficiency and climate resilience</li> <li>▪ Improved decision-making in productive and sustainable agriculture through updated information from new household survey with agriculture module</li> <li>▪ Capacity building on FLW and climate change mitigation</li> </ul>



## ANNEX 7: Country Program Adjustments

1. **The COVID-19 pandemic has significantly impacted Honduras' economy, leading to increases in poverty and inequality.** Real GDP declined by 9 percent year-on year in 2020 due to a sharp fall in trade, investment and consumption amid the global recession, extended lockdown, and damages caused by the hurricanes. As of mid-May 2021, there were over 224,000 cases of COVID-19 and more than 5,890 deaths in Honduras, leading to deep social and economic impacts. Based on WB High Frequency Phone Surveys, nearly 68 percent of households reported income losses, and more than one-third of households reported food insecurity due to lack of resources in mid-2020. In addition, a projected 12.5 percent of people lost employment in 2020. Poverty is projected to have increased from 49 to 55.4 percent in 2020 under the US\$5.50 line, and although the economy is expected to begin recovering in 2021, real GDP is not expected to reach its pre-pandemic level until 2023.
2. **As part of its response to COVID-19, the GoH implemented strict containment measures and an active policy response, which helped mitigate the impact of the crisis.** The authorities deployed a targeted fiscal response, with targeted policies to cushion their impact on economic activity and welfare, requiring new borrowing for US\$2.5 billion (10 percent of the GDP). The GoH prioritized healthcare and humanitarian services, including basic needs support to the poor, as well as support to firms. A low ratio of nonperforming loans and adequate capitalization of the banking sector helped contain financial sector risks.
3. **The pandemic was exacerbated by Tropical Cyclones Eta and Iota, with significant damage to infrastructure, livelihoods, and crops.** Eta made landfall in Central America on November 3 followed by Iota on November 16, 2020, together causing significant destruction in the country with 3.9 million people affected. The social and economic costs of the cyclones in Honduras are expected to approach US\$1.8 billion (7.5 percent of 2020 GDP), while the ongoing pandemic continues to complicate disaster relief and recovery efforts.

### WB Support in Response to the Crisis

4. **Honduras's Country Partnership Framework for FY16-FY20 and its corresponding Performance Learning Review are organized under three pillars with seven objectives:** The first pillar '*Fostering Inclusion*' has as its objective to "Expand coverage of social programs." The second pillar '*Bolstering Conditions for Growth*,' has four overall objectives: (i) Improve reliability of key infrastructure; (ii) Increase access to finance; (iii) Strengthen the regulatory framework and institutional capacity; and (iv) Enhance rural productivity. The third pillar '*Reducing Vulnerabilities*' includes two objectives: (i) Boost resilience to disasters and climate change; and (ii) Build crime & violence prevention capacity of local government. The overall WB's program for Honduras as outlined in the CPF remains valid, but small adjustments have been introduced in response to the pandemic. These adjustments are fully aligned with the four pillars of the *COVID-19 Crisis Response Approach Paper* namely: (i) Saving Lives; (ii) Protecting Poor and Vulnerable People; (iii) Ensuring Sustainable Business Growth and Job Creation; and (iv) Strengthening Policies, Institutions and Investments for Rebuilding Better (Table 7.1).

5. **The WB's COVID-19 response strategy initially focused on the immediate response to save the lives threatened by the virus, and to protect the poor and vulnerable from the economic impacts** by repurposing its existing portfolio and preparing new operations to swiftly support the GoH's emergency response: (i) the WB accelerated preparation of a Honduras Disaster Risk Management (DRM) Development Policy Credit with a Catastrophe Deferred Drawdown Option (CAT DDO, P172567) for US\$119 million (approved in April 2020); (ii) a US\$20 million Honduras COVID-19 Emergency Response Project (P173861) was approved in April 2020, followed by a US\$20 million AF to the same project (P176015) approved in April 2021; (iii) the Immediate Response Mechanism (IRM) was triggered under the Honduras Rural Competitiveness Project (COMRURAL I, P101209) for US\$2.2 million, and a US\$0.5 million Contingent Emergency



Response Component (CERC) was triggered under the DRM Project (P131094) for the COVID-19 response; and (iv) two water projects were approved in June 2020 – Water Security in the Dry Corridor of Honduras (P169901, US\$70 million) contributing to food security and nutrition, and the Urban Water Supply Strengthening Project (P173125, US\$45 million) seeking to improve municipal water management and increase access to clean water. Finally, in response to Tropical Cyclones Eta and Iota, the WB approved the Honduras Tropical Cyclones Eta and Iota Emergency Recovery Project (P175977) for US\$150 million in December 2020, and is working with the GoH to finalize the requirements to trigger the CERC for approximately US\$21 million under COMRURAL II (P168385) to respond to the emergencies created in the agriculture sector.

**Table 7.1. WB Engagement in Honduras with Adjustments to Respond to COVID-19**

Original CPF Program FY16-FY20	Country Program Adjustment to COVID-19	Pandemic Response
<b>Pillar I: Fostering Inclusion</b> <ul style="list-style-type: none"> <li>• Expand coverage of social programs</li> </ul> <b>Pillar II: Bolstering Conditions for Growth</b> <ul style="list-style-type: none"> <li>• Improve reliability of key infrastructure</li> <li>• Increase access to finance</li> <li>• Strengthen regulatory framework and institutional capacity</li> <li>• Enhance rural productivity</li> </ul> <b>Pillar III: Reducing Vulnerabilities</b> <ul style="list-style-type: none"> <li>• Boost resilience to disasters and climate change</li> <li>• Build crime and violence prevention capacity of local governments</li> </ul>	<b>I. Protecting Lives</b> <ul style="list-style-type: none"> <li>• Prevent, detect, and respond to the threat posed by COVID-19.</li> <li>• Broaden and deepen engagement in social protection programs.</li> </ul>	<b>DRM CAT DDO 1 (P172567) – FY20</b> <b>Honduras COVID-19 Emergency Response IPF (P173861) – FY20</b> <b>AF to Honduras COVID-19 Emergency Response IPF (P176015) – FY21</b> <b>AF Social Protection Integration IPF (P175718) – FY21</b>
	<b>II. Protecting Livelihoods</b> <ul style="list-style-type: none"> <li>• Support competitive, innovative, and climate-resilient agribusiness initiatives.</li> <li>• Support the upgrade of rural public and community infrastructure to improve connectivity.</li> <li>• Response and recovery needs and strengthen institutional capacity to manage a resilient and inclusive recovery and reconstruction.</li> </ul>	<b>Tropical Cyclones Eta and Iota Emergency Recovery IPF (P175977) – FY21</b> <b>Integrating Innovation for Rural Competitiveness in Honduras IPF (COMRURAL III) (P174328) – FY21</b>
	<b>III. Protecting the Future</b> <ul style="list-style-type: none"> <li>• Strengthen and rebuild better national systems for public health preparedness.</li> <li>• Strengthen disaster risk management capacity.</li> </ul>	<b>Improving Access and Governance in Health IPF (P176532) – FY22</b> <b>DRM CAT DDO 2 (new) – FY22</b>

6. **Moving forward, the priorities for the IDA19 pipeline will focus on:** (i) *Protecting Lives* by expanding the coverage of the country's safety net system through the AF Social Protection Integration Project; (ii) *Protecting Livelihoods* through a scale up of the Bank's long-term engagement in rural agricultural cooperatives, and support to micro, small and medium enterprises working with the financial sector to provide support for small business recovery to producer organizations and stimulate rural development through COMRURAL III; and (iii) *Protecting the Future* through a new investment operation in health to address the sector's structural, governance, and infrastructure challenges. In addition,



the Bank is also considering a new CAT DDO operation to strengthen Honduras's disaster risk management capacity, which would be financed under IDA20.

**Selectivity, Complementarity, Partnerships**

7. **The WB's response will continue to build on strong policy dialogue and collaboration with the GoH and is part of a broader support effort by International Financial Institutions to complement financing needs.** There has been coordination with the Inter-American Development Bank and the Central America Bank for Economic Integration on the COVID-19 and Tropical Cyclones Eta and Iota response to ensure complementarity in the response from International Financial Institutions. In addition to broader discussions with the "G-16" donor coordination group, the WB has partnered with PAHO to implement a Pandemic Emergency Financing Facility for US\$1.3 million, and has begun contracting UN Agencies such as the World Food Programme and UNOPS for transport and related services for the delivery of protective equipment and other supplies under WB-financed projects.



## ANNEX 8: Map of Honduras

