



**The World Bank**

Honduras - Innovation for Rural Competitiveness Project - COMRURAL III (P174328)

# Project Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 23-Apr-2021 | Report No: PIDA31676



## BASIC INFORMATION

### A. Basic Project Data

Country Honduras	Project ID P174328	Project Name Honduras - Innovation for Rural Competitiveness Project - COMRURAL III	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date 26-Apr-2021	Estimated Board Date 15-Jun-2021	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Republic of Honduras	Implementing Agency Inversion Estrategica - Honduras (INVEST-H)	

#### Proposed Development Objective(s)

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

#### Components

Enhancing Competitiveness and Resilience in Prioritized Value Chains  
Strengthening Institutions for Improving the Agribusiness Environment  
Project Management Support  
Contingency Emergency Response Component (CERC)

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

### SUMMARY

Total Project Cost	142.30
Total Financing	142.30
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
<b>Non-World Bank Group Financing</b>	
Counterpart Funding	14.30
Local Farmer Organizations	14.30
Commercial Financing	28.00
Unguaranteed Commercial Financing	28.00

## Environmental and Social Risk Classification

Substantial

## Decision

The review did authorize the team to appraise and negotiate

**B. Introduction and Context**

## 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 by 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. However, ineffective governance and institutions, one of the world's highest crime rates, and high exposure to natural hazards 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 9.9 million inhabitants is US\$2,340 (2020). In 2019, 49 percent were living on less than US\$5.50 per day, the second highest poverty rate in LAC after Haiti, while 14.8 percent of the Honduran population was living in extreme poverty, i.e. on less than US\$1.90 per day. Poverty is deepest in rural areas and among indigenous communities: half of Indigenous Hondurans are unemployed or underemployed and over 70 percent 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), and employed women receive lower average wages than employed men.

3. **The COVID-19 pandemic, combined with tropical storms Eta and Iota, dealt severe blows to the Honduran economy in 2020.** Poverty in households under the US\$5.50 line is projected to have increased to 55.4 percent in 2020, nearly 68 percent of households reported losing income and more than one-third reported food insecurity. Tropical storms Eta and Iota in late 2020 compounded these impacts, generating social and economic costs estimated at 7.5 percent of GDP.

## 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 households, provides a direct source of income for 30 percent of the labor force and accounts for 12 percent of GDP (23 percent when



including backward and forward linkages with other sectors). More than half of the poor and two-thirds of the extreme poor live in rural areas and are disproportionately affected by food and nutrition insecurity.

5. **Climate change and other weather-related events present critical risks for agriculture and the welfare of farmers, as well as important links to 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, landslides). By 2050, average temperatures are projected to increase by 1° to 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. Climate change will also increase the frequency and severity of hurricanes, as evidenced by tropical storms Eta and Iota in 2020.

6. **Around 72 percent of Honduran rural families engage in subsistence farming and transitioning agriculture.** Family farming generates 56.5 percent of national agricultural production and 76 percent of rural employment, and it is important to national food and nutrition security. A portion of family farmers operates commercially oriented enterprises, but family farming systems are mostly characterized by low productivity and revenues, little organization and integration of producers and agribusiness, poor-quality employment, and high vulnerability to economic and climate shocks. Women, Indigenous Peoples, and Afro-Descendants play a major role in family farming but suffer from specific vulnerabilities.

7. **Several barriers block progress toward a modern, competitive agri-food system.** These include: institutional weaknesses; lack of critical data to support public and private investment in the sector; limited capacity in the areas of agri-food health and safety and in sanitary regulations for agriculture; underfunding of agricultural research and development; limited access to finance, and weak and incomplete agro-logistics services. This context has been drastically altered by the pandemic and by tropical storms Eta and Iota, which affected 72 percent of cropped area at an estimated cost of US\$2,013 million.

8. **The series of Rural Competitiveness Projects (COMRURAL) constitutes the flagship initiative of the Government of Honduras (GoH) for enhancing rural productivity, incomes and competitiveness, and promoting agricultural exports.** The WBG-financed COMRURAL series (COMRURAL and COMRURAL II), is helping increase productivity and competitiveness among small-scale producer organizations by facilitating their engagement in productive alliances and linking them to domestic and international markets, while promoting financial inclusion. COMRURAL is also contributing to mobilizing private capital for development, and there is continued interest from the financial sector in Honduras to support this model. The *Corredor Seco* Food Security Project (PROSASUR) complements the COMRURAL series, focusing on the food and nutrition security of small farmers in Honduras' Dry Corridor. The challenge for the next stage of the COMRURAL series is to continue addressing the priorities of the GoH, to expand coverage nationally, and to deepen support to the most vulnerable groups and areas, while further strengthening private and public agricultural services.

### C. Proposed Development Objective(s)

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

The following Key Results are expected of the Project:

<b>Contribution to job creation</b>	<ul style="list-style-type: none"><li>Additional individuals working under investments initiatives financed by the Project, disaggregated by gender, youth, Indigenous Peoples, and Afro-Descendants (Number)</li></ul>
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Contribution to market access	<ul style="list-style-type: none"><li>Increase in the value of gross sales of approved business plans from the second year of project execution (Percentage)</li></ul>
Enhanced adoption of climate-smart technologies and practices	<ul style="list-style-type: none"><li>Beneficiaries adopting improved technologies promoted by the project to enhance climate resilience, disaggregated by gender, youth, Indigenous Peoples, and Afro-Descendants (Number)</li></ul>

## D. Project Description

9. **The proposed Project is an Investment Project Financing to be implemented over a six-year period.** The project concept is based on turning the crisis precipitated by COVID-19, Eta, and Iota into an opportunity for the national agri-food system to “build back better.” By fostering a new generation of investment opportunities in the agri-food system, the Project will contribute to the system’s recovery while enhancing its competitiveness and climate resilience. Investments supported through 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, productive alliances, and a better capacity to create jobs and sustainable incomes.

10. **The proposed Project will be national in scope.** The Project will be actively promoted among territories, value chains, and targeted beneficiaries that had been outside the scope of the previous COMRURAL operations, and investments will be also promoted in areas with high outmigration to provide job opportunities to rural producers, especially young workers, ethnic groups and women. The proposed Project will be organized around four components, as described below.

11. **Component 1: Enhancing competitiveness and resilience in prioritized value chains.** This component will support competitive, innovative, and climate-resilient agribusiness initiatives (subprojects or business plans) in prioritized agri-food value chains under the productive alliance model. This component will encourage the adoption of climate-smart, nutrition-smart innovations (with a special emphasis in the Dry Corridor on water management subprojects), as well as climate-resilient and innovative complementary investments in small-scale agro-logistics services and minor infrastructure. The productive alliances will facilitate the participation of non-bank value-chain financiers and co-financing of business plans by private financial institutions. Subprojects will be identified and selected through a demand-driven, transparent mechanism, and will strengthen economic inclusion through four windows with different target beneficiaries and matching grant financing proportions. Window 1 (subsistence agriculture) will target informal groups of farmers that have the potential to enter into productive investments of an incipient commercial nature; Window 2 (transitioning agriculture) will target producers who practice agriculture as their main livelihood, are organized into formal rural producers organizations, and aim to transition to commercially-oriented production; Window 3 (commercially-oriented agriculture) will target formal groups of farmers who already have a commercial orientation as well as the potential to expand and contribute to job generation; Window 4 will support the development of small agro-logistics services that complement the producer investments.

12. **Component 2: Strengthening institutions for improving the agribusiness environment.** This component will support the modernization and strengthening of selected public sector services, improving the agribusiness regulatory framework and public sector institutional capacity for enabling agribusiness competitiveness. The direct beneficiaries of this component will be public sector institutions, including the Ministry of Agriculture (SAG), National Service for Health and Agri-food Safety (SENASA), Sanitary Regulation Agency (ARSA), and selected public technical agricultural schools, among others to be assessed during preparation.

13. **Component 3: Project management support.** This component will finance overall project management, coordination, monitoring, and implementation, as well as sectoral and project-related studies and assessments. A study will evaluate the impact of the COMRURAL model on project beneficiaries, including rural producers’ organizations.

14. **Component 4: Contingency Emergency Response Component (CERC).** This component will provide for an immediate response in the event of such an emergency (as defined in the CERC Operational Manual).



## Legal Operational Policies

## Triggered?

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

## Summary of Assessment of Environmental and Social Risks and Impacts

15. **The combined Environmental and Social Risk rating is Substantial, particularly driven by social risks factors.** 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 under the Project on institutional strengthening, human capital, and business climate-enhancing activities as well as technical assistance to improve production techniques. Overall project investments are expected to contribute to positive environmental benefits, including the adoption and scaling-up of climate-resilient and sustainable natural resource management practices that will reduce the Greenhouse Gas emissions of value chains. Some potential risks are related to potential water balance issues associated with small irrigation works, phytosanitary aspects of livestock production supported under the proposed Project, and vulnerability to climate-associated drought and flooding.

16. **Social risk is considered Substantial due to:** (i) the difficulties of implementing business and social risk management plans with multiple and diverse Indigenous groups with different degrees of vulnerability dispersed nationally, particularly under Window 1, which targets poor and extremely poor producers; (ii) national context characterized by high levels of crime and violence, and the challenges caused by recent emergencies (COVID-19 and hurricanes Eta and Iota) that hinders Project Implementation Unit (PIU) monitoring, World Bank supervision capacity and access to the Project's Grievance Redress Mechanism (GRM); (iii) business plans may generate impacts related to community health and safety and labor conditions, including potential child labor in the supply chains, 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 the implementing agency (INVEST-H); and (iv) difficulties associated with tracking social risks across a wider geographical area than previous versions of the COMRURAL program. Although INVEST-H has had satisfactory social safeguards implementation capacity, 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.

17. **During project preparation, INVEST-H carried out consultations with key stakeholders about the overall project design, the content of environmental and social instruments, and suggested ways to share project information and engage with stakeholders.** Consultations were undertaken between March 15 and 19, 2021 through different channels, with a total participation of 43 stakeholders: 37 through focal groups, and 6 responding to surveys. Consultations involved a wide array of participants including Indigenous Peoples (IPs), Afro-Hondurans, women and rural youth. In the focal groups, 27 percent of participants were IPs and 38 percent women. There was a dedicated IP focal group with the participation of several IP national level organizations. The results of these consultations are documented in a Consultations Report that is attached to the Stakeholder Engagement Plan (SEP) and integrated into the design of the project and its Environmental and Social (E&S) instruments. INVEST-H will disclose E&S instruments in its website prior to Appraisal and will provide an additional opportunity for stakeholders to share their views. Feedback received will be integrated into the final versions of E&S instruments.

18. **The Borrower developed and consulted 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 Grievance Redress Mechanism (GRM); (iv) Indigenous Peoples Planning



Framework (IPPF); (iv) Labor Management Procedures (LMP) with a dedicated GRM for workers; and (v) 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. Advanced drafts of all these instruments will be disclosed online by INVEST-H and the World Bank prior to Appraisal and disseminated through other means, as deemed necessary. The ESMF, RPF, SEP, IPPF and LMP will be finalized and redislosed within 90 days of the proposed Project's Effectiveness Date.

**19. The PIU will be housed in the Rural Development Management Office of INVEST-H.** In addition to the PIU based in Tegucigalpa, INVEST-H works with four regional offices. The PIU includes a full-time social specialist and a social officer, and will incorporate another social specialist under COMRURAL III. It also has a full-time environmental specialist and an environmental officer and will incorporate another environmental officer. 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 environmental and social compliance under safeguards while strengthening the social inclusion approach. The WB team will work closely with the PIU to develop a training plan during the early stages of implementation for Project staff 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.

## E. Implementation

### Institutional and Implementation Arrangements

**20. The proposed Project will be implemented by INVEST-H.** Project activities, including fiduciary activities and monitoring and evaluation, will be managed by INVEST-H. The current COMRURAL's PIU will be strengthened within INVEST-H under its Rural Development Management Office and be responsible for the implementation and evaluation of COMRURAL III activities. The PIU will coordinate with SAG, (Ministry of Agriculture), ARSA (Sanitary Regulation Agency), SENASA (National Service for Agri-food Health and Safety), private sector stakeholders, and other institutions for the implementation of the proposed Project. The SAG is part of the Inter-Institutional Board of Directors of INVEST-H and will continue chairing the Project Steering Committee of COMRURAL projects.

## CONTACT POINT

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**APPROVAL**

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