



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 22-Oct-2020 | Report No: PIDISDSA30568

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

Country Guatemala	Project ID P173480	Project Name Responding to COVID-19: Modern and Resilient Agri-food Value Chains	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date 10-Jun-2020	Estimated Board Date 15-Dec-2020	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Republic of Guatemala	Implementing Agency Ministry of Economy Guatemala (MINECO)	

Proposed Development Objective(s)

The PDO is to promote an agro-industrialization strategy that reduces food losses, increases the adoption of climate-resilient technologies, and supports the COVID 19 emergency response for beneficiaries in select value chains.

Components

Component 1: Productive and inclusive transformation of the Agri-Food system, post COVID-19

Component 2: Investments to Enhance MSMEs Efficiency and Resiliency

Component 3: Institutional strengthening in support of Guatemala's agri-food system

Component 4. Monitoring, Evaluation and Project Management

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

Yes

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

Total Project Cost	179.00
Total Financing	179.00
of which IBRD/IDA	150.00
Financing Gap	0.00

DETAILS



World Bank Group Financing

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

Counterpart Funding	17.70
Local Beneficiaries	17.70
Other Sources	11.30
International Fund for Agriculture Development	11.30

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)



B. Introduction and Context

Country Context

1. **Despite a stable macroeconomic framework, Guatemala struggles with low rates of economic growth and high poverty compared to its neighbors.** Measured by per capita Gross Domestic Product (GDP), Guatemala is the fifth poorest economy of Latin America and the Caribbean (LAC) and remains one of the region's countries with the highest rates of social and economic exclusion. GDP growth averaged only 3.3 percent over 2015-2018, with real GDP per capita growth stagnating and falling behind its Central America peers over the same period. Guatemala's ability to provide basic public services and respond to changing conditions and demands is hampered by low collection of taxes by the Central Government (tax revenues are close to 10 percent of GDP) and highly rigid budgetary expenditures, as well as significant lower levels of labor productivity (mainly explained by gaps in knowledge and job skills).
2. **Poverty, inequality, and rurality are high and persistent.** In 2014, 60 percent of the total population of 17 million was estimated to live in poverty, up from 55 percent in 2000. Vulnerability is particularly high among the Indigenous peoples, with almost 80 percent of them living in poverty (2014), and 50 percent living in extreme poverty. Income inequality is high, and the Gini coefficient rating stood at 0.49 in 2014. In 2017, about 48 percent of the total population was estimated to live in rural areas, where poverty is significantly higher (76 percent) than in urban areas (42 percent). Assessing more recent changes in poverty and inequality is difficult, due to the scarce availability of socio-economic data (since 2000, Guatemala has had the second-lowest number of household surveys available in the region, only after Haiti).
3. **Guatemala has one of the highest rates of gender inequality as measured by the Gender Inequality Index and has the lowest rates of female labor force participation in LAC.** Many indicators of women's economic opportunities have not improved since 2000 and are worse than the average in LAC and similar countries. Only 4 out of 10 women are in the labor force, less than half the corresponding rate of men. Women are at a disadvantage with respect to their male counterparts also in terms of business opportunities and access to information, technology, and markets for inputs and outputs. In terms of Gender-Based Violence (GBV), Guatemala registers one of the highest rates of violent deaths among women in the world: 6.4 per 100,000 in 2018, almost 5 times the global rate. An estimated 628 women lost their lives to violence in 2018, almost two deaths per day. Lack of education, exclusion, and gender inequality are among the most relevant triggers of GBV.
4. **Guatemala has the sixth highest rate of chronic malnutrition in the world and the highest in LAC, with Indigenous and rural populations disproportionately affected.** Hunger and undernutrition cost Guatemala more than US\$8 million per day, constituting more than 4 percent of Guatemala's Gross Domestic Product (GDP) in 2017. In 2019, Guatemala ranked 68th in food security out of 113 countries, with only 40 percent of Guatemalan families enjoying food security. Some 77 percent of families have a poor or inadequate diet, characterized by high consumption of cereals (maize) and low consumption of foods of animal origin, fruits, and vegetables. Chronic child malnutrition (stunting) is classified as very high according to the World Health Organization (WHO), affecting 47 percent of all Guatemalan children under five, 58 percent of Indigenous children, and 66 percent of children in the lowest income quintile. Other factors contributing to the high levels of stunting include low awareness on good nutrition habits and child feeding practices (only 50 percent of infant and young children receive a minimum acceptable diet) as well as poor environmental health (over 30 percent of households do not have access to safe sanitation).
5. **Guatemala is extremely affected by climate and weather events and its poorer populations are**



particularly vulnerable. Guatemala is the ninth most at risk country worldwide from climate change. By 2050, economic losses from drought, flooding, and other extreme weather events are projected to reduce GDP by between 1.3 percent and 3.7 percent. The emergence of COVID-19 and the exposure to climate change impacts is exacerbating currently observed risks and exposures, most notably among the most vulnerable sectors of the population. On the other hand, Guatemala's contribution to global greenhouse gas emissions is low compared to other countries: in 2011 the country emitted 3.4 tCO₂e/capita, half of the average per capita emissions of LAC. Agriculture is one of the strategic sectors for climate change mitigation and adaptation goals under Guatemala's Nationally Determined Contribution (NDC) to the United Nations Framework Convention on Climate Change (UNFCC).

6. **On March 11, 2020, the WHO declared the COVID-19 outbreak a pandemic, and the impacts on Guatemala are expected to be severe.** As of October 12, 2020, COVID-19 has infected 97,826 Guatemalans and killed 3,387, and the number of cases is still growing. The authorities declared a state of emergency on March 5, 2020 and implemented strong containment measures. Economic activity is expected to contract by 3.5 percent in 2020, somewhat cushioned by a stable level of remittances, but with severe implications for households and firms. GDP growth in the first quarter of 2020 decelerated to 0.7 percent, down from 3.4 percent in the similar period of 2019. The crisis has dramatically affected the financial conditions of firms by reducing demand for their products, generating shortages of liquidity, and exacerbating high levels of economic and financial exclusion, especially for micro, small and medium enterprises (MSMEs). Small-scale producers and informal workers are disproportionately vulnerable to the slowdown in economic activity and to the restrictions to local and international mobility imposed in response to the emergency, in addition to facing higher health risks. As a result of the crisis, poverty is estimated to have increased from 50.1 to 65.2 percent of the population by mid-2020 and expected to stabilize at around 52.1 percent by the end of 2020, after accounting for the Government's mitigation measures. More than 50 percent of individuals reported losing their jobs as a result of the pandemic, 70 percent of households reported income reductions, and more than 45 percent of households reported running out of food during the lockdown. Higher poverty levels, higher rates of malnutrition, and much lower access to basic services make the populations in rural areas—the majority of whom are Indigenous—even more vulnerable to the expected economic contraction. Income inequality measured by the Gini index is expected to increase to 0.54, from a pre-crisis level of 0.49. In September 2020, the Government published the Plan for Guatemala's Economic Recovery. The Plan builds on three strategic objectives, to be achieved following the cross-cutting principles of health and safety, innovation, and sustainability: (i) build more and better jobs; (ii) attract more strategic investment; and (iii) stimulate consumption of Guatemalan goods and services at the local, regional, and global level.



Sectoral and Institutional Context

7. **Agriculture plays a significant role in Guatemala's economic performance and employment.** Primary agriculture accounts for about 10 percent of the country's GDP with a significant multiplier when accounting for the full backward and forward linkages in the agri-food system and employs around 30 percent of the population. In 2015, the broader food sector represented 45 percent of the country's total merchandise exports. Secondary processing activities also create opportunities for job creation and diversification of local production. Market-linkage programs in the sub-sectors of vegetable and fruit preparation for exports have in some cases, proven particularly beneficial for small-scale organized producers.
8. **Limited market access and inefficient value addition/preservation capacity and lack of market information result in low productivity and variable sales and incomes, for Guatemala's micro, small and medium agro-industrial enterprises and small producers.** Within the domestic markets, smaller producers and SME agribusinesses face several challenges. Limited market transparency, lack of investment in on-farm and post-harvest technologies and other logistical market-access barriers lead to an abundance of middlemen, who capture a large portion of the value of any transaction. In addition, the quality of infrastructure varies greatly across Guatemala, which exacerbates regional income inequality, particularly between urban and rural areas. This also has severe impacts on access to agricultural markets, including contributing to high food losses (on-farm and throughout the VC) and affecting food quality and safety.
9. **In particular, the Guatemalan agri-food sector faces the challenge of substantial post-harvest food losses, due to insufficient investment in storage facilities, limited market information and low uptake of good post-harvest practices.** According to the United Nations Environment Programme, 52,000 tons of post-harvest food is lost or wasted annually in Guatemala. More than 35 percent of beans and maize are spoiled due to poor harvest management, pests and animals, salmonella and aflatoxins. In addition, lack of information about market location and prices leads to high levels of food loss at the farm level and additional upstream loss in the value chain. Food Loss and Waste (FLW) also significantly contributes to GHG emissions.
10. **To build toward its anti-poverty and growth potential as part of the Government's "economic wall of opportunities," the agri-food system must improve significantly its productive and post-harvest efficiency while mitigating the deleterious impacts of the COVID-19 pandemic.** COVID-19 is expected to impact in unprecedented ways the productivity and food security of producers and consumers within Guatemala's food systems, as well as agri-food exports. While the sector has clear potential for continued expansion and diversification in export and domestic markets, the urgent challenge related to COVID-19 threatens producers, agribusiness micro-, small- and medium-sized enterprises (MSMEs), other supply chain actors, markets, and domestic and international demand. To improve access to markets and build resilience in the system, especially given the current dual health and economic emergencies, the proposed Project offers an opportunity to make investments that contribute to strengthening and improving efficiency in productive and post-harvest capacity, and to promoting food safety, food quality, competitiveness and broader resilience considerations as well as to strengthen mechanisms of inclusion for groups of young people, women and Indigenous people.

C. Proposed Development Objective(s)

The PDO is to promote an agro-industrialization strategy that reduces food losses, increases the adoption of climate-resilient technologies, and supports the COVID 19 emergency response for beneficiaries in select value chains.



Key Results

Reducing Food Losses	<ul style="list-style-type: none"> Reduction in post-harvest losses in investment subprojects financed to beneficiaries in selected value chains (as a percentage of total production) Improvements in the quality of public services (laboratories) in food safety and traceability (as a percentage share of baseline) (percentage)
Increasing adoption of climate resilient technologies	<ul style="list-style-type: none"> Beneficiaries adopting improved agricultural technologies promoted by the project to enhance climate resiliency, disaggregated by sex, age, and ethnicity (number)
Providing emergency response to the Covid-19 pandemic	<ul style="list-style-type: none"> Beneficiaries accessing jobs due to improvements in their job skills or better access to job options through the employment platform (number) MSMES accessing improved financial services as the result of the implementation of the National Financial Inclusion Strategy (ENIF, for its Spanish acronym) (number)

D. Project Description

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

12. **Component 1: Productive and inclusive transformation of the Agri-Food system, post COVID-19.** This component will invest in three strategic priority areas: (i) Technical assistance to the National Strategy for Financial Inclusion and an emergency relief fund for MSMEs that will be created by MINECO; (ii) Skills development for greater employability through training and an on-line labor-matching platform; and (iii) Awareness campaigns for behavioral change, to promote better consumption patterns for improved nutrition and export opportunities.

13. **Component 2: Investments to Enhance MSMEs Efficiency and Resiliency.** This component will operate at a national level, focusing on subprojects in select, strategic VCs. Eligible beneficiary MSMEs will receive financial support based on approved business plans to improve the quality of their productive processes through investments in post-harvest practices, including activities such as storage, agro-logistics, aggregation, and transformation of harvested products along the selected VCs. The Project will provide grants and beneficiaries will be expected to provide contributions. The grants will be provided by MINECO with both the International Fund for Agricultural Development (IFAD) and World Bank resources. The component is divided into three sub-components based on the type of eligible beneficiaries: (i) Micro agro-industrial enterprises for the smallest agri-food economic units; (ii) Micro, small and medium agro-industrial enterprises; and (iii) An innovation challenge fund to identify promising enterprises in any field related to post-harvest and/or food safety technologies

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

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

16. **Targeted value-chains were prioritized given their agro-industrial potential, complemented by inclusion and food security considerations.** In particular, the cardamom value chain presents a significant potential for



inclusion, as it relies on small producers, overwhelmingly Indigenous, with substantial participation of women and youth at all stages of the value chain; similarly, beans have historically been one of the staple foods in the diet of Guatemalans, and bean producers in Guatemala are among the smallest agricultural producers in Central America. Further VCs that could be included in the Project will be selected based on criteria set forth in the Project Operational Manual, prioritizing those with a potential to support Guatemala's economic recovery from the COVID-19 crisis.

17. The Project will mainstream inclusion considerations throughout the design of all components, placing explicit emphasis on various population subgroups such as smallholder farmers and micro rural enterprises, seeking inclusion of traditionally underserved groups such as Indigenous Peoples and people of African descent, women, youth, rural producers. An extensive gender assessment was undertaken during preparation to examine the gender gaps in agriculture (also focusing on the specific gaps faced by Indigenous women and young women) and the potential for the Project to address select gaps, complemented by a specific and measurable action plan. A similar assessment exercise was undertaken for the inclusion of Indigenous Peoples, which will inform the Indigenous Peoples Planning Framework (IPPF) of the Project. In addition, a mapping of relevant actors and action plan for fostering the engagement and inclusion of people with disabilities has been planned.

Legal Operational Policies

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

Summary of Assessment of Environmental and Social Risks and Impacts

17. Potential adverse environmental and social (E&S) risks and impacts stemming from project activities are not likely to be significant. The Project does not envision large infrastructure works or intervention in any highly sensitive areas. Investments are expected to be temporary, predictable, medium in magnitude and spatial extent, enhancing prioritized value chains across Guatemala. While other value chains may be prioritized during implementation, investment scope is not expected to change. Investments will entail site-specific improvements or construction based on pre-approved business plans meeting specific criteria and complying with the Project's negative list defined in the ESMF and the Operational Manual. Potential impacts are related to activities aimed at improving production on-farm (including the installation of greenhouses, hail nets and micro irrigation systems) and the rehabilitation or construction of on-farm/on-site infrastructure and investments. Construction works will be on farm or site, without impacts beyond existing footprints. Environmental impacts and risks may include those associated with minor on-site vegetation clearing, minor earthworks, altered local rainwater drainage patterns, construction and community health and safety impacts, and impacts related to the handling of waste. Impacts associated with processing of agricultural produce may include those associated with handling and disposal of chemicals in onsite laboratories, water use and wastewater treatment, air emissions from cold storage and processing facilities, and waste handling/ disposal.

18. Whereas the environmental risk rating is assessed as moderate, the combined Environmental and Social risk



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

19. Given that the exact scope and location of subprojects will be defined only during project implementation, based on demand and subject to the specific eligibility criteria, and because specific risks are unknown, the Project has adopted a framework approach to environmental and social management. The framework approach and phased preparation of E&S instruments is also required to accommodate project preparation with condensed procedures under paragraph 12 of the Investment Project Financing (IPF) policy in response to the COVID-19 pandemic. The Environmental and Social instruments will be developed in two phases. The Government of Guatemala (GoG) will develop, consult with key stakeholders, and disclose prior to appraisal a draft Stakeholder Engagement Plan (SEP), including a project-level Grievance Redress Mechanism (GRM) and an Environmental and Social Commitment Plan (ESCP). Consultations for these instruments took place in the context of country-wide quarantine with strong mobility restrictions, following the recommendations set forth in the World Bank's (WB) Technical Note, avoiding in-person gatherings, and using virtual interactive meetings, emails, online surveys, WhatsApp and traditional telephone calls, when stakeholders did not have access to online channels or were not used to them. The results of these consultations have been documented in the draft SEP and integrated into the design of the project and the SEP.

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

21. The Project Management Unit (see paragraph 22) will include dedicated environmental, social and gender specialists and will be responsible for complying with environmental and social commitments, supervising firms and contractors to ensure application of mitigation measures, monitoring implementation and reporting to the Bank and relevant national authorities. MINECO will submit semiannual implementation reports to the Bank, including a dedicated section on compliance with the environmental and social requirements set forth in the ESCP and specified in each of the E&S instruments developed for this Project.

E. Implementation



Institutional and Implementation Arrangements

22. **The project will be under the coordination of the Vice Ministry of Investment and Competition of MINECO and the National Program on Competitiveness (PRONACOM).** MINECO will establish a Project Management Unit (PMU) within PRONACOM specifically for the implementation of this Project. The PMU will be headed by a General Project Coordinator, for coordination and operational monitoring of project activities through implementation and for overall technical coordination with others MINECO Directorates/Departments and beneficiary institutions as well as various units within MINECO such as the Directorate of the National Quality System, Directorate of Economic Analysis.

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APPROVAL

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