



The World Bank

Additional Financing (AF) to the Innovation for Rural Competitiveness Project (COMRURAL III) - GAFSP Financing (P181004)

Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 25-May-2023 | Report No: PIDA36143

BASIC INFORMATION

A. Basic Project Data

Country Honduras	Project ID P181004	Project Name Additional Financing (AF) to the Innovation for Rural Competitiveness Project (COMRURAL III) - GAFSP Financing	Parent Project ID (if any) P174328
Parent Project Name Innovation for Rural Competitiveness Project - COMRURAL III	Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date 28-Apr-2023	Estimated Board Date 16-Jun-2023
Practice Area (Lead) Agriculture and Food	Financing Instrument Investment Project Financing	Borrower(s) Republic of Honduras	Implementing Agency Secretaría de Agricultura y Ganadería

Proposed Development Objective(s) Parent

(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

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	12.30
Total Financing	12.30
of which IBRD/IDA	0.00
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Counterpart Funding	3.80
Local Farmer Organizations	3.80
Trust Funds	8.50
Global Agriculture and Food Security Program	8.50

Environmental and Social Risk Classification
 Substantial

B. Introduction and Context

1. **Additional Financing (AF) is proposed in the amount of US\$ 8.5 million to channel new financing from the Global Agriculture and Food Security Program (GAFSP) to the Government of Honduras (GoH) for the Innovation for Rural Competitiveness Project (COMRURAL III, P174328).** The AF will support the expansion of COMRURAL III to the Moskitia-Costa Atlántica region (located in the administrative department of Gracias a Dios) and will finance interventions addressing the region’s urgent food security needs. As a result of the AF, the Parent Project will be restructured to add a new component and incorporate changes to the Project’s results framework and costs. The proposed AF is aligned with the original Project Development Objective (PDO), which will remain the same, and the Environmental & Social Risk Classification (ESRC) and the implementation arrangements remain broadly unchanged. Because the department of Gracias a Dios represents a more challenging operating environment, additional residual institutional and operational risks have been identified, and the Project’s risk rating is **Substantial**.

2. **Given the urgent need for improving food security in the Moskitia-Costa Atlántica region, the AF and associated restructuring are being processed under condensed procedures in line with paragraph 12 of Section III of the IPF Policy and an exception to finance food purchases has been granted.** Recent natural disasters, combined with the pre-existing multi-sectoral needs in the Moskitia-Costa Atlántica, have compounded the stark food and fertilizer inflation faced by the entire country, making it urgent to intervene quickly. In addition, the requirements of the GAFSP call for proposals, which prioritized urgent food security requests, indicate that funds should begin disbursing within nine months of approval by GAFSP (i.e., by November 2023). Restructuring requirements set forth in Bank’s Policy and Directive for Investment Project Financing have been met, namely: (i) the PDO remains achievable, (ii) the Bank and the Recipient agree on actions that will be undertaken to complete the Project on time, (iii) there are no overdue audits, and (iv) the Project is not subject to suspension of disbursements. Finally, an exception has been obtained to finance

food purchases under the new Component of the project to be financed by the AF in order to support the activities of the Government's School Feeding Program (SFP).

3. **COMRURAL is considered the Government's flagship initiative for enhancing rural productivity, incomes, and competitiveness and promoting agricultural exports.** First launched in 2008, it has now included a series of projects: COMRURAL and its Additional Financing (P101209, US\$23 million approved in 2008 + US\$48 million AF approved in 2017, closed in 2021), COMRURAL II (P168385, US\$75 million, approved in 2019 and effective in 2020, ongoing) and COMRURAL III (P174328) US\$ 100 million approved in 2021, ongoing). The COMRURAL projects are recognized throughout Honduras for its success in linking smallholder farmers to domestic and international markets. Results from COMRURAL I showed for every \$1 invested by the project, an additional \$1.29 of private capital was mobilized - a total of US\$20.5 million through private financial institutions and US\$13.5 million through the finances of the rural producer organizations.

4. **COMRURAL III was approved in June 2021 (IDA credit 6917 – HN for US\$ 100 million) and the Financing Agreement for the credit was signed in December 2022.** The delay between approval and signing of the IDA credit was due to the transition to a new political coalition in Honduras following general elections held on November 28, 2021. The new government implemented institutional changes for World Bank-financed operations. In May 2022, the GoH requested a Level-2 restructuring for COMRURAL III to: (i) change the Implementing Agency from INVEST-H to the Ministry of Agriculture and Livestock (Secretaría de Agricultura y Ganadería, SAG in its Spanish acronym); and (ii) integrate new institutional arrangements proposed by SAG¹ for the Project Implementation Unit (PIU).² The restructuring of the COMRURAL III was approved on December 7, 2022, and the Financing Agreement was signed on December 29, 2022. The original deadline for effectiveness was April 18, 2023, however it was extended for six months to October 18, 2023 to allow more time to complete the Project Implementation Unit (PIU) transition from INVEST-H to SAG and achieve the two effectiveness conditions: (i) the adoption of a Project Operations Manual (POM); and (ii) the preparation of an updated Environmental and Social Commitment Plan (ESCP). During this transition period, the PIU experienced significant staff turnover given the internal reorganization of the PIU. New PIU staff recruitment is ongoing to replace the staff who left. Drafts of the POM and ESCP and have been prepared and the effectiveness conditions are expected to be met by the date of AF approval.

5. **The Parent Project prepared an Environmental and Social Management Framework (ESMF), Stakeholder Engagement Plan (SEP), Labor Management Procedures (LMP), Resettlement/Process Framework (RF/PF), and Indigenous Peoples Planning Framework (IPPF).** The instruments were disclosed by both the Bank and SAG in June of 2021. For AF preparation, the ESCP and SEP were updated and redisclosed by both the Bank and SAG on May 25, 2023³. The ESMF, SEP, LMP, RF/PF and IPPF will be updated within 90 days of the parent project's effective date to cover the new activities and geographical areas under the AF.

¹ Letter SAG-1160-2022 dated September 5, 2022.

² SAG's Project Administration Unit (UAP-SAG) will implement the project. The UAP-SAG is an independent department of SAG created with Ministerial Agreement No. 362-14 on June 4, 2014 and has implemented several donor-funded Projects.

³ The instruments can be found here: <https://comrural.hn/comrural-iii/>

Rationale for Additional Financing

6. **The Moskitia-Costa Atlántica region has been historically marginalized and faces a range of medium-to-long-term economic challenges.** Geographically isolated, the region has historically been characterized by high vulnerability to disasters and its population, nearly 83 percent of whom are Indigenous and Afro-descendant,⁴ present severe gaps in development indicators compared to the rest of the country. Its inhabitants live in chronic poverty and experience high environmental and food vulnerability. The incidence of multidimensional poverty in the Moskitia area amounts to 71.8 percent of households, much higher than the national average of 67.2 percent and poverty has been persistent. In 2018, approximately 80 percent of households in the Moskitia zone were considered food insecure, with 45.4 percent of the population in severely food insecure status⁵ very similar to recent IPC estimates noted above. In the same 2018 assessment, 30.7 percent of children under five years of age were found to suffer from chronic malnutrition and for 5 percent of children with this type of malnutrition, stunting was severe (similar to the nationwide average of 4.2 percent of children classified as severely stunted). Challenges are more acutely felt by vulnerable groups such as women, the youth, and the elderly. This is compounded by a low presence of state programs and weak public institutions in charge of service delivery including water and sanitation, electricity, communication, internet, and agriculture extension, among others. This has created a development context characterized by a lack of financial resources allocated by the central government often also managed with limited accountability, weak technical capacities within the regional administration, limited productive infrastructure, security risks, and physical isolation.

7. **The GoH requested financing from GAFSP in order to respond to the urgent need for improving food security in the AF target region, Moskitia-Costa Atlántica due to long standing development challenges and recent weather shocks.** The region was severely affected by Tropical Storm Julia in October 2022 and in a rapid assessment conducted the same month, more than 20 percent of the inhabitants in Gracias a Dios, equivalent to 24,000 people, were found to be facing serious livelihood and food security challenges due to the severe effects of the storm⁶. Above-average levels of rainfall have also had devastating consequences and exacerbated pre-existing multi-sectoral needs throughout the country, and Moskitia-Costa Atlántica was one of the hardest-hit. Excess rainfall has caused significant crop loss, with nearly 25,000 hectares of crops affected, causing food shortages and price surges, which were also affected by the war in Ukraine and global increases in food/fertilizer prices. The latest Integrated Food Security Phase Classification (IPC) projections for June to August 2022 found the Moskitia-Costa Atlántica region faced the highest severity of crisis-level food insecurity (45 percent) of the country's eighteen departments⁷.

⁴ The Miskitos are the second largest Indigenous community in Honduras, accounting for 11 percent of the total Indigenous population. World Bank (2021), Project Improving the livelihoods of the Misquitos indigenous people in La Mosquitia, JSDF/BM-P167767

⁵ Territorial Baseline Report for the Department of Gracias a Dios prepared by ANED Consultants for the Alliance for the Development of the Moskitia based on data for 2018.

⁶ Ayuda en Acción, October 2022: Rapid report on the impact on the livelihoods of the indigenous and Afro-Honduran population in the face of storm Julia

⁷ IPC (2023). Honduras: Acute Food Insecurity Situation December 2021 to February 2022 and Projections for March to May 2022 and June to August 2022. [online]. Available at: <https://www.ipcinfo.org/ipc-country-analysis/details-map/en/c/1155409/?iso3=HND>

C. Proposed Development Objective(s)

Original PDO

8. The Project's Development Objective 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. No change is proposed to the PDO as a result of the AF.

Key Results

9. **The additional results expected through the AF would be:** (i) improved and increased access to nutritious food and enhanced food and nutrition security and sovereignty of vulnerable communities of the Moskitia-Costa Atlántica, including Indigenous and Afro-Honduran peoples and with a focus on vulnerable groups such as women, youth, and people with disabilities; (ii) strengthened capacity of governmental entities operating in the Moskitia-Costa Atlántica relative to food and nutrition security and emergency response; (iii) strengthened governance structure to develop monitoring, early response capacity and to respond to food security emergencies caused by natural hazards; and (iv) greater cultural relevance of productive and food security interventions and increased participation of Indigenous and Afro-Honduran organizations. The proposed additional Financing to the Parent project will keep the original project's PDO of enhancing productivity, market connectivity, and food security of those target beneficiaries. AF activities will also be designed for rural producers' organizations and groups, and are expected to contribute to employment generation, improved risk management, increased productivity and incomes, and enhanced availability of nutritious food. Ultimately, this is expected to translate into inclusive growth while fostering environmental sustainability and climate change adaptation and mitigation.

D. Project Description

10. The proposed AF will restructure and scale up COMRURAL III activities to support immediate and short-term goals aiming to relieve the urgent food insecurity with a strong focus on the inclusion of vulnerable populations. Specifically, the proposed AF will allow COMRURAL III to finance activities in one of the two last remaining departments of the country not covered under the Project⁸, and to continue supporting the increase in the productivity and competitiveness of Honduran smallholders by: (i) facilitating the participation of farmer groups in productive alliances; and (ii) promoting the adoption of climate-smart and nutrition-sensitive approaches. The GAFSP financing will be incorporated into COMRURAL as follows:

11. **Component 3: Project Management (AF \$0.5 million).** AF financing will be used to finance additional project management costs under the third component to implement and monitor the activities in Gracias a Dios. In particular, AF financing will be used to establish a new office in Puerto Lempira, the departmental capital, with field staff (a regional

⁸ The other department that remains not covered is Islas de la Bahia, where livelihoods depend prominently on elite tourism.



coordinator, environmental specialist, and social specialist); and to finance additional monitoring and evaluation activities.

12. **New Component 5. Strengthening Food Security and Productive Inclusion in the Moskitia and Atlantic Coast of Honduras (AF US\$8 million):** The Component’s activities will build on the existing approach of COMRURAL III with a stronger focus on food security as well as on specific institutional strengthening within a multicultural and multiethnic context. Activities will also support the improved functioning and coverage of the School Feeding Program (SFP, cf. Annex 1 for details on the program) in the department of Gracias a Dios to improve its overall efficiency and pilot mechanisms to decentralize food purchases, linking schools directly with local food producers. The support to SFP will include dedicated investments in capacity building and food purchasing mechanisms, leveraging synergies with the World Food Programme (WFP) as a provider of related technical assistance. The new component will include the following three sub-components:

13. **Subcomponent 5.1. Organizational Strengthening and Support to Productive Alliances (US\$4.0 million GAFSP) will focus on improving food security through productive inclusion of beneficiaries.** This subcomponent will finance capacity building activities and subprojects to rural producer groups⁹ and organizations by supporting the preparation and financing of business plans (“agrocoastal subprojects”) targeting animal, crop, and marine products, in varying degrees and depending on the maturity of the planned activity. Business plans will be prepared by rural producer groups/organizations and will be evaluated based on their commercial, technical, environment, social, and financial viability, and on their potential to increase rural incomes and to contribute to the following key outcomes for the Moskitia-Costa Atlántica region: (i) addressing food insecurity of the local population producing and/or consuming the food products; (ii) supporting family farmers adopting more sustainable and resilient agriculture and post-harvest practices; and (iii) promoting the participation of the most vulnerable populations, such as IPs, Ads, women, youth, and/or persons with disabilities. Finally, subcomponent 5.1 is expected to generate synergies with the School Feeding Program through the strengthening of linkages between the supply and demand of food and/or agricultural produce for school meals. The AF will provide support to rural producers’ groups or organizations to finance feasible business plans in line with the terms of Component 1 (Windows 1 and 2 for subsistence and transition agriculture) of the current COMRURAL III¹⁰.

14. **Subcomponent 5.2. Improved Nutritional Status and Investment in Local Communities (US\$2.65 million, GAFSP).** The second subcomponent will invest in enhancing food and nutrition security through culturally-relevant community investments. The subcomponent will finance bottom-up community investments in nutrition education and household hygiene that will aim to protect and improve the nutritional status of vulnerable households through the development and implementation of Community Nutrition and Hygiene Plans and support to selected schools to

⁹ This includes informal groups of farmers and fisher groups that have the potential to enter into productive investments of an incipient commercial nature.

¹⁰ Window 1 supports subsistence producers through the provision of grants to groups of producers while requiring some level of beneficiary contributions, which could be in-kind. COMRURAL II window 1 financing rules require beneficiaries to provide 15% co-financing (in kind or in cash) and the maximum grant size for the group is an amount that does not exceed US\$1,000 per individual member. Financing guidelines for COMRURAL III are currently being drafted and are expected to be similar.

strengthen the SFP through the development and implementation of School Feeding Plans, in particular to decentralize food purchases at school level and link to local food producers. Investment activities will be complemented by (i) training to communities, school feeding committees and heads of families in food and nutrition education; and (ii) community awareness and outreach campaigns. In partnership with WFP, the subcomponent will support the expansion of the national SFP in Gracias a Dios, strengthening local institutional structures related to school feeding in areas such as food procurement management and transparency, formalization of arrangements with producer groups and promotion of market linkages. Subcomponent 5.2 will be divided into two main activities: (i) Community Nutrition and Hygiene Plans; and (ii) School Feeding Program Plans.

15. Subcomponent 5.3. Multicultural and Multiethnic Institutional Strengthening (US\$1.3 million, GAFSP) will improve the multicultural, multiethnic, and technical capacities of both government entities and the local population.

This subcomponent will aim to strengthen institutional capacities related to technical, multicultural and multi-ethnic skills among government entities and the local population. The subcomponent will finance technical assistance and strengthening of infrastructure to government agencies such as SAG, the Ministry of Social Development (SEDESOL), Territorial Councils, among others, as well as other relevant stakeholders, with the purpose of fostering a favorable environment for culturally relevant investments in productive inclusion and food and nutrition security.¹¹ In particular, capacity building efforts will focus on building public servant capacity to enhance their understanding of multicultural and multiethnic aspects of food and nutrition interventions (including knowledge of Indigenous language), and to ensure that those capacities can remain in the area of influence even when the Project ends; promoting the participatory elaboration of culturally appropriate and transparent public investment priorities for SAG and SEDESOL; and generating support for the development of skills and knowledge that can promote accountability in the territory of local populations. This includes the training for technicians who speak Indigenous languages and technical training of Indigenous agricultural extension workers; design of monitoring systems for food security and micro watershed management and preservation; and establishment of platforms for dialogue between local civil servants and populations to improve local governance.

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

¹¹ Institutional strengthening will also include building capacity to manage public resources in an accountable and transparent manner.

16. **The World Bank’s Operational Policy – Projects on International Waterways (OP 7.50) was triggered when COMRURAL III was prepared**, since the Project was going to finance small-scale irrigation activities that 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. As the AF activities may rely on water from watersheds of the Coco River, OP 7.50 is triggered by the AF. The subprojects financed by the AF 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 1, 2023.

E. Implementation

Institutional and Implementation Arrangements

17. **The Additional Financing (AF) will use the same implementation arrangements as the parent project (COMRURAL III) and will be implemented by SAG through its Project Administration Unit (UAP-SAG).** The specialists working for SAG have experience working with the Bank's safeguards and ESF, and the AF will establish a new office in Puerto Lempira with additional E&S specialists. Close collaboration and coordination with SEDESOL, PROASOL, and CONAPROAH will be required, particularly for actions related to Indigenous Peoples and Afro-Honduran Peoples (IPAHs). Implementation support from consulting firms, NGOs, and international organizations will be utilized to provide timely technical assistance and effective communication with beneficiaries. The implementation entity or entities will be selected competitively and following key transparency criteria that will be set forth in the Project Operational Manual (POM), including criteria related to capacity and experience working in La Moskitia with key IPAH stakeholders. The specific roles and number of implementing entities will be decided after AF approval. The TORs for the implementing entity or entities will include their specific role for E&S management and required capacity. In addition, the World Food Programme (WFP) will be hired to provide technical assistance specifically related to the strengthening of the School Feeding Program. In collaboration with these organizations, the AF can provide timely technical assistance and effectively communicate with beneficiaries.

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