

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA47369

Project Name	Himachal Pradesh Horticulture Development Project (P151744)
Region	SOUTH ASIA
Country	India
Sector(s)	Agricultural extension and research (15%), Crops (15%), Irrigation and drainage (30%), General agriculture, fishing and forestry sector (5%), Agro-industry, marketing, and trade (35%)
Theme(s)	Trade facilitation and market access (20%), Rural markets (40%), Rural services and infrastructure (40%)
Lending Instrument	Investment Project Financing
Project ID	P151744
Borrower(s)	Republic of India
Implementing Agency	Department of Horticulture, Himachal Pradesh
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	05-Feb-2016
Date PID Approved/Disclosed	06-Feb-2016
Estimated Date of Appraisal Completion	
Estimated Date of Board Approval	25-Mar-2016
Appraisal Review Decision (from Decision Note)	The review authorized the team to appraise and negotiate.

I. Project Context

Country Context

During the decade from 2001 to 2011, India's economy expanded at an average annual rate of 8 percent per year. After a subsequent slowdown during 2011-2012 and 2012-2013, higher growth rates are projected to resume. However optimistic the prospects for overall economic growth may be, concerns persist over how inclusive this growth is, and raise serious questions about India's ability to end extreme poverty and foster shared prosperity. Job creation remains a daunting challenge to achieving shared prosperity and to reducing the number of people living in poverty – particularly in rural areas, where most of India's labor force is employed. About 68 percent of India's rural labor force is employed in agriculture. Long term agricultural growth remains volatile, fluctuating by around 3 percent per year. The agriculture sector therefore remains very important to the larger economy, and its political and social significance is widely recognized as well.

The Government of India (GoI) recognizes the potential that agriculture carries as an engine of growth and job creation, its role in the country's ongoing process of rural – urban transformation,

and its role as a necessary driver of improved nutrition outcomes. The GoI also recognizes the need for certain strategic shifts to enable and facilitate the structural transformation of Indian agriculture, more fully capitalizing on the sector's potential contributions to economic growth and job creation. Four such shifts reflect underlying trends in food supply and demand. (i) A shift away from traditional food grain production and towards diversification into the production of higher value agricultural commodities such as fruits, vegetables, and dairy products. (ii) A shift away from emphasizing on-farm production and towards value addition in the post-harvest segments of agriculture value chains. (iii) A shift away from focusing on productivity and towards resilience of agriculture production systems for addressing the effects of climate change. (iv) A shift away from a focus on agricultural production and towards nutrition sensitive agriculture. To facilitate these four shifts that underlie the transformation of the agriculture sector in India, the GoI has launched a number of policies and initiatives since 2014. These include a technology driven second green revolution with a focus on higher productivity and diversification; a National Action Plan on Climate Change (NAPCC) and its component Missions a "National Adaptation Fund" to meet the challenges of climate change; a nationwide "District Level Incubation and Accelerator Programme" focusing on micro, small and medium enterprises (MSME); and a scheme for promoting a National Agricultural Market to accelerate the integrated development of agricultural marketing and trade.

The Indian agri-food system is undergoing a major transformation. First, organized retail, including e-retail, is rapidly growing, giving consumers a wider choice of goods, more convenience, and often lower prices. The benefits of this trend are expected to extend to the mass of Indian consumers. Second, changes in consumption patterns are driving rapid changes in the production basket, which is diversifying in favor of high value commodities such as fruit, vegetables, livestock and fisheries. This change in consumer tastes and preferences has set the stage for expanding and modernizing handling, storage and distribution networks.

Sectoral and institutional Context

The state of Himachal Pradesh (HP) is characterized by a significant number of opportunities in high-value commodities. These include, most importantly, diversity in agro-climatic conditions, possibilities to produce for 'off-season' markets, relatively well-educated producers, and proximity to consumer markets. The state's agriculture is dominated by high value horticultural commodities, which account for about 44 percent of the cropped area, and which account for about 48 percent of the agricultural gross state domestic product (GSDP). The state has emerged as a leading producer of fruits and offseason vegetables. The horticulture sector annually contributes INR 63,000 million (US\$1,051 million) to the state's economy, which is about 7 percent of the GSDP.

Horticulture in HP has been responsible for many of the positive outcomes in employment, wages, and in turn, poverty reduction. Employment in horticulture as a percentage of all agricultural employment in HP increased from 0.9 percent to 28 percent between 1983 and 2009-10. Crop diversification has made a significant impact on income and employment among small and marginal farmers. The expansion of area cultivated with non-food grain crops was a significant factor influencing the growth of rural non-farm employment in the state. 90 percent of the population of Himachal Pradesh resides in rural areas as of the latest census, and 88 percent are small and marginal farmers. The average operational land holding is less than one hectare. About 70 percent of the state's overall employment is in agriculture and the rural economy. Women are significant contributors in agriculture, horticulture, and livestock/dairying sectors. In horticulture, women continue to provide significant labor and supervisory input to pre-harvest and post-harvest

activities. However, their access to horticulture technologies and extension services, market infrastructure/information, skill and entrepreneurship development opportunities and decision making structures remains weak.

Notwithstanding the significant potential of horticulture production in HP to contribute to higher economic growth and poverty reduction objectives, the state faces a number of sectoral, institutional and policy challenges which need to be addressed more systematically if the full potential is to be realized and translated into sustainable development impacts. These include: (i) limited access to appropriate production technologies, including elite planting materials, leading to low productivity; (ii) insufficiently developed water management systems, leaving the state's horticulture almost entirely dependent on rainfall in spite of available water resources; (iii) a weak research system and limited capacity and efficiency of extension services leading to inappropriate horticulture practices; (iv) high post-harvest losses, paired with low value addition, exacerbated by weak storage, processing, and marketing capabilities; (v) weak institutional capacity for the development of micro, small and medium enterprise (MSME) in agro processing; and (vi) lack of access to medium and long-term financial capital. The sector is also faced with competition from abroad because its domestic markets are open to international trade. While the total volume of banking sector credit to the agriculture sector is large and a substantial number of farmers have access to credit, just 21 percent of the banking sector loan portfolio in agriculture was medium and long-term (over one year) in 2014-15. This share has steadily decreased from 63 percent in 2010-11. Addressing these constraints to horticulture development will require a predictable and supportive policy environment for private sector development, better access to product and input markets, and improved farmer's access to horticultural extension services and financial services.

The sustainability of a growing horticulture sector will require improved and long term resilience against climate change risks. Although regional projections from IPCC assessments generally apply to Himachal Pradesh, the specific impacts of climate change on the state's horticulture sector remain difficult to determine and forecast with any precision. Long-range studies (covering 30 year records) conducted by the Himachal Pradesh Agricultural University point to average air temperatures in the range of 0.7 to 2.4°C higher than that in the 1980s, as against the global average of 0.5°C.; the Himachal Pradesh trend indicates an increase of 0.06°C per year. Temperature increases are greater in the uplands than the lowlands. Analyses of rainfall data over the period 1976 to 2006 show trends of increasing rainfall in the high elevation districts of Lahaul-Spiti, Chamba and Kangra, but decreasing trends in the lower Solan and Kinnaur districts.

The strategy of GoI and Government of Himachal Pradesh (GoHP) to address the constraints for the rapid and sustainable development of the horticulture sector includes a variety of initiatives. These focus on growth through diversification into high value horticulture production by creating an environment that enables the farming community to acquire the necessary technical knowledge and capacity to capitalize on emerging market opportunities. The GoHP actively supports the implementation of Weather Based Crop Insurance Scheme (WBCIS). In 2014-15, over 85,000 horticulture (mainly apple) producers benefitted from insurance coverage of INR 320 crore (US\$49 million). The GoHP is also pioneering a number of initiatives emphasizing carbon-sensitive and environmentally sustainable watersheds. The State is also first to have a large scale forestry Clean Development Mechanism (CDM) project the Himachal Pradesh Reforestation Project, Improving Livelihoods and Watersheds (CDM Project 4174). The state's strategic shift to and emphasis on high value horticulture opens the financial viability of providing irrigation, which in turn provides improved resilience against rainfall uncertainties.

The proposed Himachal Pradesh Horticulture Development Project (HPHDP) represents a major shift in how the long term development of the horticulture sector can be supported through an integrated value chain approach. As such the HPDHP expands investments in production, processing, and marketing while improving service delivery. The project supports the modernization of the horticulture sector through the application of new technologies and approaches that will contribute to climate resiliency, strengthen the productive capacities of producers and their organizations, and facilitate access to markets and value addition for selected commodities. It will facilitate improved access to and use of financial services—in particular credit and insurance—for farmers and agro-enterprises by supporting new product development and financial counselling.

II. Proposed Development Objectives

The Project Development Objective (PDO) is: “to support small farmers and agro-entrepreneurs in Himachal Pradesh, to increase the productivity, quality, and market access of selected horticulture commodities.”

The project beneficiaries will include farmers and entrepreneurs especially in the micro-small medium enterprises (MSME) segment, farmer producer organizations, and other value chain participants. The project will contribute to inclusive growth by prioritizing support to small and marginal farmers in the state, with specific focus on fruit tree crops. The project will benefit about 150,000 producers. Of these beneficiaries at least 33 percent are expected to be women. Indirect beneficiaries will include those who benefit from technologies demonstrated by the project, farmers whose produce goes through rehabilitated markets, and farmers accessing Negotiable Warehouse Receipt financing, etc. Rules, procedures, and guidelines will be employed to prevent possible elite capture.

III. Project Description

Component Name

Component A: Horticulture Production and Diversification

Comments (optional)

The objective of this component is to enhance horticultural competitiveness at the farm level by supporting access to knowledge, technology and finance in order to increase long term productivity and farm incomes in an environment marked by changing market patterns and increased climate variability.

Component Name

Component B: Value Addition and Agro-enterprise Development

Comments (optional)

The objective of this component to improve value realization at the farm level, promote investments in agribusiness, fostering backward and forward linkages in the value chains for horticulture products, support supply chain infrastructure that prevents wastage and value erosion; and enable secondary and tertiary processing that create higher value for the produce.

Component Name

Component C: Market Development

Comments (optional)

The objective of this component is to provide an improved platform for market-related information

and intelligence, expand market access through alternative marketing channels, enhance transparency in the price discovery process, and improve market infrastructure.

Component Name

Component D: Project Management, Monitoring and Learning

Comments (optional)

This component will ensure the effective implementation of the project activities and monitor and evaluate project implementation progress, outputs and outcomes, building on implementation experience.

IV. Financing (in USD Million)

Total Project Cost:	171.50	Total Bank Financing:	135.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			33.70
International Development Association (IDA)			135.00
LOCAL BENEFICIARIES			2.80
Total			171.50

V. Implementation

The project would be implemented over a period of seven years, with a mid-term review envisaged two years after effectiveness. Although the project would cover the entire state (12 districts), the intensity of activities in each district would depend on the existing production potential. The project would be fully integrated in the GoHP administration and implementation is designed to promote the use of existing GoHP structures at central level, and when available, at decentralized levels. Where institutional capacity is limited and special skills are required, the project will acquire outside expertise, including international technical assistance and consulting services. The project would put particular efforts into institutional coordination across departments and agencies, and ensure that project management incorporates private sector perspectives essential for long-term development and commercialization of the state's horticulture sector. Overall management and coordination would be the responsibility of the HPHDP Society, a registered body established by GoHP to implement the project. The Society would have a Governing Council and an Executive Body. The Governing Council under the Chair of the Chief Secretary, Government of Himachal Pradesh, would have the Principal Secretaries/Secretaries of the implementing agencies, Principal Secretaries Finance and Planning, and Vice Chancellor of the State Horticulture University as members. The Additional Chief Secretary – Horticulture would be the member secretary. The Executive Body would be chaired by the Additional Chief Secretary – Horticulture, and would have Commissioners and Directors of the implementing agencies as members. Project Director (PD), HPHDP would be the member secretary of the Executive Body and representatives from NABARD and State Level Banking Committee would be special invitees.

Coordination of day-to-day project implementation, planning and scheduling, procurement management, financial control, as well as reporting and monitoring would rest with the Project Coordination Unit (PCU), which is part of the HPHDP society. Four Project Implementing Units (PIUs) have already been setup within the Department of Horticulture, Himachal Pradesh Horticulture Processing and Marketing Corporation (HPMC), Himachal Pradesh State Agriculture

Marketing Board (HPSAMB), and University of Horticulture and Forestry (UHF) to oversee the implementation of their specific activities. For ensuring coordination and review project progress at the district level, a District Coordination Committee (DCC), headed by the Deputy Commissioner, comprising all implementing agencies, lead bank, with Deputy Director of Horticulture as member secretary, would be established.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36		x
Pest Management OP 4.09	x	
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10	x	
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50	x	
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

As part of project preparation an environmental and social assessment has been undertaken. Based on the assessment, an environmental and social management framework (ESMF) has been prepared and disclosed. It can be accessed on the web (on <http://www.hpagrisnet.gov.in/hpagris/Horticulture/Default.aspx?SiteID=5&PageID=1404>). The ESMF has incorporated provisions for environmental guidelines, mitigation measures, institutional arrangements, training and capacity building, and monitoring mechanisms/indicators to ensure that environmental and social concerns are adequately addressed during the implementation stage. Participatory discussions and consultation with project stakeholders and beneficiaries on environment and social issues was an integral part of the ESMF preparation process. The proposed project is expected to have a positive impact on the environment. It will help reduce soil erosion and increase soil fertility. The integrated pest management strategy will ensure that the farmers would reduce reliance on chemical pesticides with the introduction of imported cultivars. The risk of exclusion of small and marginal farmers and women farmers from project interventions will be mitigated through systematic prioritization and targeting, and Citizen's Engagement strategy, as well as a Tribal Development Framework to address issues arising from project interventions in tribal areas. The project activities may have some limited impact on local environment through construction of supply chain infrastructure and processing plants but these can be limited, managed and mitigated. For large infrastructure development supported under the project, the ESMF will be used for appraisal and screening of each infrastructure sub project. An appropriate environmental management plan (EMP) for each subproject would be incorporated into the bidding documents and construction contracts prior to commencement of works. Environmental and Social specialists will be hired at the state and district level to monitor implementation of the ESMF and other social and environment related activities.

VII. Contact point

World Bank

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