



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 16-Apr-2020 | Report No: PIDC28835

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

Country Guatemala	Project ID P173480	Parent Project ID (if any)	Project Name Responding to COVID-19: Modern and Resilient Agri-food Value Chains (P173480)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date Jul 14, 2020	Estimated Board Date Nov 20, 2020	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance Guatemala (MINFIN)	Implementing Agency Ministry of Economy Guatemala (MINECO)	

Proposed Development Objective(s)

The objective of the project is to contribute to improved food system efficiency and increased beneficiary resiliency in select value chains.

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

Total Project Cost	211.00
Total Financing	211.00
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	50.00
Local Beneficiaries	50.00
Other Sources	11.00



International Fund for Agriculture Development

11.00

Environmental and Social Risk Classification

Substantial

Concept Review Decision

Track I-The review did authorize the preparation to continue

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.** Although prudent fiscal policies have maintained a low inflation rate and low overall debt level (25 percent of Gross Domestic Product (GDP)), GDP growth averaged only 3.3 percent over 2015-2018, resulting on divergence rather than convergence to the United States income per capita. Real GDP per capita growth stagnated over the same period, averaging 1.2 percent and falling behind its Central America peers. Guatemala is the fifth poorest economy of Latin America, if measured by per capita GDP, and remains one of the countries with the highest rates of social and economic exclusion in LAC. Also, the country's human capital indicators are similar to those of much poorer countries. For instance, around two thirds of children at late primary age today are not capable of understanding a simple text. These gaps in knowledge and skills severely hamper the productive, flexible and innovative capacity of its labor force. A long-lasting social equilibrium has resulted in a minuscule state (e.g., tax revenues of the central government are close to 10 percent of GDP), with highly rigid expenditures. Both outcomes limit the ability of the state to provide basic public services, and also hinder the ability of the state to respond to changing conditions and demands.
- 2. Poverty, inequality and rurality are high and persistent.** Guatemala has one of the highest poverty rates in Latin America and the Caribbean (LAC), and deep inequality persists across various dimensions. The poverty rate increased from 55 percent in 2000 to 60 percent in 2014, income inequality, as measured by the Gini coefficient, was 0.49 in 2014 – higher than most LAC countries. Vulnerability is particularly high among the Indigenous peoples, with almost 80 percent living in poverty in 2014, and half in extreme poverty. Of all people living in poverty in the country, 52 percent are Indigenous, and belong to three main Indigenous communities, the Mayan, the Xinca, and the Garifuna. Between 1-2 percent of the population are Afro Descendants. In 2017, about 48 percent of the total population of Guatemala, estimated at nearly 17 million, lived in rural areas, versus 51 percent two decades earlier.
- 3. Guatemala has the highest Gender Inequality Index and the lowest rate of female labor force participation in Latin America.** Only 4 out of 10 women are in the labor force, less than half the corresponding rate of men. Similarly, female youth unemployment is almost twice that of men. Women are at a disadvantage with respect to their male counterparts also in terms of technical and soft skills, as well as 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 in 100,000 in 2018, almost 5 times the global rate. According to the National Institute of Forensic Sciences (INACIF), 628 women lost



their lives to violence in 2018, almost 2 deaths per day. Lack of education, inclusion, and gender inequality are among the most relevant triggers of GBV.

4. **Guatemala has the fourth highest rate of malnutrition in the world and the highest in Latin America and the Caribbean; malnutrition is especially marked in indigenous and rural areas.** Malnutrition is higher than 70 percent in the poorest communities in rural areas, particularly in regions where the indigenous population is predominant. In about half of the municipalities of Guatemala, the population faces high or very high levels of food and nutritional insecurity – a measure of the prevalence of chronic malnutrition. In 2019, according to the Global Food Security Index, Guatemala ranked 68th in Food Security out of 113 countries.¹ Chronic malnutrition (stunting) is high, affecting 47 percent of all children and 66 percent of children in the lowest welfare quintile.
5. **Guatemala is the ninth country most at risk worldwide from climate change.**² In recent years, weather events, such as floods and droughts, have had significant negative human and economic consequences. Reduced rainfall and higher temperatures are expected to reduce surface water flows by 10 to 50 percent by 2030 and total water availability by 5 to 30 percent by 2050. Economic losses from drought, flooding and other extreme weather events are projected to impact GDP by between negative 1.3 to 3.7 percent,³ of which an estimated 40 to 70 percent affects specifically the agriculture sector. On the other hand, Guatemala's contribution to global greenhouse gas (GHG) emissions is considerably low comparing to other countries: in 2011, the country emitted 3.4 tCO₂e/capita⁴ (half of the average per capita emissions of the Latin American and Caribbean region, 7 tCO₂e/capita) and contributed only 0.08 percent to the global GHG emissions⁵.
6. **The new government, which took office on January 14, 2020, has committed to ramp up growth and curtail migration by creating an “economic wall” of opportunities.** After three years of weaker performance (IMF, June 2019), Guatemala's GDP revived since mid-2018, experiencing a real GDP growth of 3.4 percent in 2019. Meanwhile, the fiscal deficit, debt and inflation levels remain moderate, while the current account is broadly balanced. The incoming government has set a goal of achieving annual GDP growth of 6 percent, which is expected to be achieved through the implementation of strategic activities under the Economy, Competitiveness and Prosperity pillar set out on the Government of Guatemala (GoG's) national development strategy. The above-mentioned actions include encouraging investment projects, including public-private partnership policies; investing in human resources' capacity building; and promoting the creation of formal and decent employment, as the main mechanism to contribute to economic growth, poverty reduction, strengthen productivity and competitiveness, and improvement of efficiency.
7. **On March 11, 2020, the World Health Organization (WHO) declared the novel coronavirus (COVID-19) outbreak a pandemic.** This declaration came as a result of the exponential increase in COVID-19 cases outside of China with an increase to triple digit numbers of affected countries within the past weeks. In the months to come, WHO expects a significant increase in the number of cases, deaths and affected countries. The impacts of the virus on Guatemala are expected to be significant. Depending on the length of the containment measures required to fight COVID-19, the outbreak could lead to a decline in GDP of up to 4 percent in 2020 and the IMF has revised the country's economic growth projections for 2020 to – 2 percent.⁶ The transmission channels will be mainly through exports and tourism, and as the US economy dives down, through remittances (currently at 10.4% of GDP). The COVID-19 outbreak will have significant effects on the external accounts, inflation, and government balances, with expected higher financing needs and public deficit. The limited fiscal space and an expected fall in an already low revenue collection (10.6 percent of GDP in 2018), will likely constrain

¹ <https://foodsecurityindex.eiu.com/Index>

² Long Term Climate Risk Index, 2017

³ [Guatemala's Intended Nationally Determined Contribution \(INDC\)](#)

⁴ https://repositorio.cepal.org/bitstream/handle/11362/37311/4/S1420655_en.pdf

⁵ https://www.climatelinks.org/sites/default/files/asset/document/GHG%20Emissions%20Factsheet%20Guatemala%20v5_SC_11-02-15_edited_rev08-19-2015_Clean.pdf

⁶ <https://www.imf.org/en/Countries/GTM>



government's response from the health sector. The overall recovery in the medium-term will likely be lengthier. The health response system is among the weakest in the region, and safety nets, including for the most vulnerable rural farmers, are underdeveloped to face the expected large needs (about half of population in poverty at \$5.5 /day as of 2014, and an additional 36.1% vulnerable to fall back to poverty).

Sectoral and Institutional Context

8. **In Guatemala, primary agriculture employs around 30 percent of the population and accounts for 10 percent of the country's GDP.** While the share of primary agriculture exports reached 24 percent in 2015, the broader food sector represents 45 percent of the country's total merchandise exports. For export markets, export diversification in terms of products and markets remains an important challenge. The value of the sector's exports in real terms has more than doubled since the early 2000s, reaching US\$4.9 billion in 2017⁷. This impressive export growth was explained by the expansion of traditional exports such as coffee, sugar, banana, cardamom, rubber, fruit and vegetables. However, just three agricultural sub-sectors (coffee, sugar and banana) accounted for 61 percent of agricultural/agri-food export value in 2013.
9. **At the domestic level, agriculture in the country presents a highly dualistic structure, but both small and large actors are impacted by the exacerbating threat of climate change.** In Guatemala, export-oriented large commercial farms coexist with less efficient and poorly remunerated subsistence-oriented small producers. Reflecting this, at one extreme, Guatemala has become a leading exporter of agricultural products such as sugar and cardamom and has the most efficient sugar-loading terminal in the world. At the other extreme, small farmers who produce for the domestic market and for their own consumption lack access to finance (farmers' rate of access to finance is 13.9% lower than the national average)⁸), markets, and national value chains. Small farmers have also seen a steadily declining or stagnating productivity over the last decade, partly due to climate change, lack of technical assistance, agriculture good practices implementation, with obvious repercussions on the growth and ground up prosperity prospects of the country.
10. **The domestic agri-food system faces serious challenges in terms of gaps in agro-logistics infrastructure and assets.** At less than 1 percent of GDP, public infrastructure investment in Guatemala is among the lowest in Latin America and emerging markets. Low tax burden hinders the Government's ability to invest in infrastructure.⁹ Infrastructure deficiencies are keeping the cost of basic goods high, suppressing competition, and have contributed to sustained high food price inflation over the last decade, especially in rural areas (IMF 2016)¹⁰. 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 value-chain) and affecting food quality and safety. In particular, the Guatemalan agri-food sector faces the challenge of substantial post-harvest food losses, due to limited dissemination of information on good post-harvest practices, lack of storage facilities, and insufficient investments. According to the United Nations Environment Program (UNEP), in Guatemala there are 52,000 tons of post-harvest food lost or wasted annually.

⁷ https://oec.world/es/visualize/tree_map/hs92/export/gtm/all/show/2017/

⁸ <https://foodsecurityindex.eiu.com/Country/Details#Guatemala>

⁹ The country tax burden is well below Guatemala's own aspirational objectives set in the 2000 Fiscal Pact, and it is also just about half of the country's tax capacity of around 20 percent of GDP. Low tax rates, numerous exemptions, and tax evasion contribute to the weak taxing capacity of the country. Furthermore, according to IMF estimates, tax evasion reached almost 5 percent of GDP in 2015, and VAT collections in the country are 38 percent below their potential (Guatemala SCN Concept Note).

¹⁰ IMF 2016. <https://www.imf.org/external/pubs/ft/scr/2016/cr16282.pdf>



11. **To deliver on its anti-poverty and growth potential, the Agri-food sector must improve on its fundamentals and performance, so as to address the many challenges it has been confronted with for years, as well as the serious, deleterious impacts of the recent COVID-19 pandemic.** COVID-19 is expected to impact in unprecedented and unknowable ways the productivity and food security of producers and consumers up and down Guatemala's food systems, as well as the country's exports of agri-food products. Consequently, while the sector has clear potential for continued expansion into other products for export and domestic markets, an urgent emerging challenge related to the COVID-19 threatens producers, supply chains, markets, and both domestic and international demand. To help create access to markets and build resilience in the system, especially within the framework of the current health emergency, the proposed Project offers an opportunity to make investments that contribute to strengthening productive and post-harvest capacity, and to promoting food safety, food quality, and sustainability considerations.

Relationship to CPF

12. **The proposed project is in line with both strategic pillars of Guatemala's Country Partnership Framework (CPF) FY17-FY20:** (i) fostering inclusion of vulnerable groups; and (ii) addressing bottlenecks to sustainable growth. The proposed Project will contribute to both pillars by supporting inclusion and market access for small and medium agriculture producers, while creating conditions for agri-food system development. The Project moreover strongly supports the main focus areas of the Systematic Country Diagnostic (SCD, at draft Concept Note stage). Specifically, it supports several aspects of the SCD's focus on boosting agriculture productivity and human capital, enhancing job quality and unlocking investments, including institutional strengthening, a more competitive business environment and dynamic private sector.
13. **The Project is designed to support the 2020-2024 National Government Policy¹¹ which is aligned to the K'atun National Development Plan¹² and the "National Program for Emergency and Economic Recovery"¹³.** The proposed Project is perfectly aligned with the first axis of the new government's strategic objectives to promote economic growth, competitiveness, and prosperity and with the "K'atun 2032 Plan", which seeks to improve the competitiveness of rural areas by (i) developing better connectivity between rural areas and markets and/or production areas, including infrastructure and information systems (ii) promoting productive projects that improve current food security levels; (iii) increasing producers competitiveness and developing agro-businesses with lower production costs, especially regarding transport and/or logistics; and (iv) improving post-harvest management processes to reduce production costs. The proposed project also supports the new plan on COVID-19 recovery, and specifically to promote that the productive activity recovers in the short term.

C. Proposed Development Objective(s)

The objective of the project is to contribute to improved food system efficiency and increased beneficiary resiliency in select value chains.

Key Results (From PCN)

¹¹ [Política General de Gobierno 2020-2024, Guatemala.](#)

¹² [Plan Nacional de Desarrollo K'atun 2032](#)

¹³ Programa Nacional de Emergencia y Recuperación Económica (Etapa 1)



- Reduction of food losses in selected value chains (as a percentage of total production) (Food System Efficiency, Climate Resiliency)
- Reduction of products rejected due to food safety received by SMEs and producer organizations in selected value chains (as a percentage share of baseline) (Food System Efficiency, Climate Resiliency)
- Number of beneficiaries who have adopted an improved agricultural technology promoted by the project, by gender, ethnicity (Food System Efficiency, Climate Resiliency, Resiliency to Shocks) (Core)
- Traceability systems functioning for two target Value-Chains (Food System Efficiency, Climate Resiliency, Resiliency to Shocks)
- Targeted clients satisfied with agricultural services, by gender, ethnicity (percent) (Core) (Citizen Engagement, Resiliency to Shocks)
- Grievances registered related to project benefits that are addressed (percent) (Citizen Engagement)

D. Concept Description

14. **The proposed Project is an Investment Project Financing (IPF) financed with a US\$150 million Bank loan, US\$11 million International Fund for Agricultural Development (IFAD) contribution and with US\$50 million of private co-financing (from beneficiaries and/or commercial financing.)** The total project cost is estimated to be US\$211 million and is to be implemented over a period of six years. The proposed IPF will leverage investments from agribusiness and integrate private financing providers (based on a Maximizing Finance for Development (MFD) model).
15. **The proposed Project aims to reduce food losses and increase climate resiliency for selected value chains, contributing to a more efficient, safer, profitable, modern and resilient food system in Guatemala and strengthening the livelihoods of rural producers and consumers.** By reducing losses in Guatemala's agri-food system, the project is contributing to a dual objective of increasing the efficiency and equity of that system. This will be achieved through various transmission mechanisms such as more stable prices in regional and wholesale markets; extension of the shelf life of food production, which increases market access and the bargaining power of producers and small agro-industrial enterprises, also fostering their growth potential; and year-round diversification of the population's food diet at affordable prices. By improving modernization of strategic value chains underpinned by innovative systems, practices and approaches, the Project will also contribute to addressing some of the broader challenges currently faced by the Guatemalan agri-food system, such as (i) high levels of inefficiency in value-chains, (ii) low access and/or lack of adapted agricultural financial products for rural producers and entrepreneurs, (iii) limited technical and innovative initiatives in the sector, and (iv) gaps in enabling institutional framework.
16. **The proposed Project will prioritize strategic Value Chains (VCs), some of which have already been identified¹³ by the Ministry of Economy (MINECO).** Starting in 2015, MINECO began systematically reviewing VCs and selected several for their agro-industrial and development potential. These selected VCs include vegetables, papaya, cardamom, potatoes and beans. These VCs were selected given the potential to: (i) add value to their products and differentiate them by augmenting their transformation processes, (ii) incorporate more and/or new SMEs to the VCs, (ii) generate more quantity and better quality jobs in the agro-industrial sector, (iii) improve coordination and articulation between the different actors in strategic national VCs, and (iv) decrease food losses and production costs as well as increase competitiveness in the agri-food system. In terms of geographic scope, these VCs operate mainly in the departments of Sacatepéquez, Chimaltenango, Suchitepéquez, San Marcos,

¹³ [Previous analysis of strategic Value Chains done by the Government of Guatemala.](#)



Petén, and Sololá, as well as in the so-called Northern Transversal Strip¹⁴, which includes the territories of Alta Verapaz, Baja Verapaz, Quiché, Huehuetenango, and Izabal. The project will prioritize the MINECO-selected VCs, vegetable, papaya, cardamom, potato and beans. The latter is not only one of the main staples for the Guatemalan population but also a secure means of income since the cultivation of beans directly generates an equivalent to 54,162 permanent jobs. The vegetable value chain also holds promise in terms of gender inclusion, as women tend to be particularly invested in vegetable production.¹⁵

17. **Beneficiaries:** The proposed Project will directly benefit over 25,000 agri-food entrepreneurs with approximately 600 subprojects in target value-chains through improved access to finance and investments to improve post-harvest practices (component 2) and primary production (component 3). Beneficiaries of these subproject investments will be agribusinesses comprised of formal groups, associations, producer organizations, cooperatives, and also individual entrepreneurs. Groups are estimated to be composed of 30 members on average¹⁶. Eligibility criteria will be developed during project preparation and detailed in the Project Operation Manual (POM). By investing on critical technology that enhances climate resilience, commercialization potential, and reduced input costs and production loss, the project will contribute to creating and strengthening long-term economic opportunities for poor rural producers. The project will also support eligible entrepreneurs selected through an Innovation Challenge Fund who would design and/or pilot new post-harvest or food safety technologies in Guatemala. Crucially, the Emergency Response Component envisaged by the Project (Component 1) will directly benefit farmers and producers in various agro-industrial value chains by supporting different kinds of government interventions in response to the COVID-19 emergency: the emergency response will especially emphasize support to the poorest and most vulnerable, such as small rural enterprises and smallholders. Finally, the Project will directly benefit public sector institutions that play a role in the food system, e.g. MINECO, The Ministry of Agriculture, Livestock and Food (MAGA), and others, through capacity building and the development of analytics, Sanitary and Phytosanitary (SPS) and traceability systems for the selected VCs. Participation and inclusion of women, indigenous people and afro descendants in subprojects, as well as public sector institutional strengthening measures, will be ensured through selection criteria set out in the POM.
18. **The Project will also indirectly benefit other agricultural enterprises that play a role in the productive VCs**, either participating as partners/allies of the main producers (as intermediaries, agro-processors, aggregators, wholesalers, traders, among others) or providing strategic products/services for their successful operation (specialized inputs, equipment, etc.) through improved production and post-harvest processing systems and market/food safety infrastructure, as well as fostering an environment for agri-business innovation. Other indirect beneficiaries will include consumers with better access to safer, less perishable food (with implications for better nutrition) and those in the agriculture sector who benefit from improvements in the capacity of MINECO (INE) and MAGA and from the more transparent information systems enabled by the Project. The Project will also have broader social externalities by reducing the GHG emissions resulting from food loss or discarded unsanitary/unsafe food.
19. **Gender Gaps:** Like their urban counterparts, rural women in Guatemala have fewer economic opportunities, are less likely to hold titles to their productive assets and face substantial financial exclusion. These constraints are further exacerbated for a majority of women involved in the agri-food sectors. Global experience demonstrates how, in agriculture and entrepreneurship alike, gender disparities in access to inputs, credit, and asset ownership are at the root of substantial productivity gaps. During preparation, an assessment will be produced to identify gender gaps and constraints among the target beneficiary populations and will design a gender strategy with an action plan.

¹⁴ Franja Transversal del Norte in Spanish.

¹⁵ An informative anecdotal example in this sense is the Women (mostly indigenous) Cooperative *Cuatro Pinos* (which the team visited during identification mission in March 2020), whose members are mostly engaged in the production of vegetables such as courgettes, carrots, peas and french beans.

¹⁶ https://www.centralamericadata.com/es/article/home/Clasificacin_como_MiPYMe_en_Guatemala.



20. **Based on the above-mentioned approach, the proposed Project will finance the following Components:**

Component 1: Emergency Response to COVID-19 impacts on agriculture sector

21. The Coronavirus crisis is a health crisis with equally virulent socio-economic dimensions, with impacts in terms of food security of the population on the one hand, and the potential to devastate livelihoods especially of the smaller and less capitalized producers. This component will facilitate different kinds of government interventions such as distribution of emergency “production packages” for small rural enterprises and smallholders. These packages would be designed to support project beneficiaries, notably the smaller, more vulnerable rural households to stabilize their means of production in the face of input scarcity due to local shortages and other supply chain disruptions. Packages may include e.g. tools, equipment, building materials, seeds, fertilizer, pharmaceuticals, fuel, livestock, masks, gloves, etc. Support packages would be designed based on identification of the needs of different farmers groups (small, medium and large) and for different agriculture value chains or subsectors including cereal crops, horticulture, aquaculture, poultry and livestock. This component will contribute to short term economic resilience of small rural entrepreneurs and smallholders. The component will also help towards improved food security for Guatemalans.

Component 2: Post-harvest investments in select value chains.

22. **Subcomponent 2.1: Subproject Investments in Agribusinesses.** This subcomponent will support SMEs (see MINECO 2011-2015 definition) to conduct subprojects on basis of approved business plans to improve food quality enhancement and post-harvest practices and handling for better storage and transformation of harvested products on-farm and along the selected VCs. Potential investments will be further defined during project preparation but may include investments such as on-farm cold-storage rooms for vegetable preservation, on-farm vegetable and fruits washing/cleaning equipment and technologies, equipment for drying of fruits and vegetables, refrigerated vehicles for better transport along the VC, or investments in on-farm canning facilities or at an aggregator level, investments in selected local markets to reduce losses and waste, among others. These technologies will contribute to the reduction of FLW, thus reducing the GHG emissions of these value-chains. In addition, many of these technologies will be accompanied by renewable energy power sources, further reducing GHG emissions and contributing to climate co-benefits. The component will also feature a challenge fund to identify promising entrepreneurs and ideas related to post-harvest and/or food safety technologies¹⁷. These investments will include civil works, goods and technical assistance.

23. **Subcomponent 2.2: Investments in Sanitary and Phytosanitary (SPS) and Traceability Systems for food-safety.** This component will invest in public infrastructure along the VCs to better apply SPS and quality standards, protocols, policies and monitoring and surveillance systems and capabilities, improve laboratories, and introduce traceability mechanisms using digital solutions for at least two of the priority VCs identified. It will invest in necessary infrastructure and accompanying capacity building in public markets to ensure the integration of SPS, food quality and safety standards within the food system. It will also invest in laboratory infrastructure and accompany technical assistance to provide better information on food quality and safety and build traceability systems for at least two value chains using digital tools and platforms. Information and traceability systems will focus on surveillance and management of animal health events, guarantees on the control of movement of food products at the level of individual traceability, and guarantees on the basic safety aspects of final products. Other than contributing to food safety, these investments will contribute to reducing the high level of food loss generated in Guatemala by lack of market information, pricing and off-takers: strong information systems on product

¹⁷ A “challenge fund” is a competitive financing facility that allows discovering and financing innovative proposals around a very specific theme, which otherwise may not be discovered through more traditional grant-making or funding mechanisms. These innovative initiatives, which might include, for example, facilities to produce fruit and/or vegetable preserves, dehydrated meals, etc., will contribute to reduce food loss, improve food safety as well as reduce the cost of packaging and storing, making local healthy foods more affordable for domestic consumers while improving export offerings and value. This challenge fund will also serve as a catalyst to drive growth and technological development in the agri-food system to foster a culture of innovation and entrepreneurship, indirectly improving the quality of human capital and jobs in the sector.



traceability as well as the integration of SPS, food safety and quality measures can help reduce loss on-farm and along the value chain, contributing to the reduction of GHG emissions. This subcomponent will finance studies, technical assistance, consultancies, goods and works.

Component 3. Improving primary production and value change relationships (Financed by IFAD).

24. This component aims to increase the income of small producers by improving their climate resilience and reducing crop losses from primary production. It will finance three sorts of investments through business plans: (i) on-farm improvements in production systems of select value chains such as climate smart technologies (greenhouses, hail nets, micro irrigation systems, etc.), infrastructure such as warehouses and small processing plants; and energy saving technologies such as solar panels; (ii) Technical assistance and capacity building of smallholders and producer organizations in areas such as governance; financial management, procurement, basic comprehension of legal contracts, negotiation, market skill, business intelligence, and ad hoc specialized technical assistance related to select value chains; and (iii) Development of partnerships and market linkages such as building public-private-producer partnerships (4Ps), productive alliances, and contract farming. This component will be developed under both nutrition sensitive and gender transformative approaches.

Component 4. Institutional strengthening in support of Guatemala's agri-food system.

25. The objective of this component is to strengthen two public sector institutions in Guatemala that are considered strategic for the proper functioning of the country's agri-food system: MINECO and MAGA. It will finance studies to support MINECO's ability to lead the sector. During project preparation, and in close coordination with the World Bank operation that will support policy reforms (DPL, P173698), this component will finance specific activities to strengthen technical units of those ministries. A diagnosis of institutional strengthening needs will be carried out in close coordination with the authorities of each of these institutions; this will include an assessment of the National Statistics System, which is under the responsibility of MINECO. This component will finance studies, technical assistance, consultancies, capacity building, goods and works.

Component 5. Monitoring, Evaluation and Project Management.

26. This Component will finance the overall project management, monitoring, and implementation of Components 1-33, including the following aspects: (i) project management and coordination among different actors and stakeholders; (ii) monitoring and evaluation, including periodic beneficiary satisfaction surveys (at inception, mid-term and six months before project completion, a full impact evaluation study incorporated in project design from the outset, and capturing lessons learned through a constant cycle of improvement; (iii) project environmental and social standards; (iv) project fiduciary administration, internal controls and audits; and (v) a citizen's engagement mechanism.

Component 6. Contingent Emergency Response Component (CERC).

27. The objective of this component is to support the Government's emergency response and reconstruction in the event of a future eligible emergency. An eligible emergency is an event that has caused, or is likely to imminently cause, a major adverse economic and/or social impact associated with natural or man-made crises or disasters. At the request of the Government, the World Bank will reallocate uncommitted funds from other components into this component. The mechanism for declaration of emergency would be in accordance with current government procedures.



Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

Project location(s) and salient physical characteristics relevant to the ESS Assessment (geographic, environmental, social)

The proposed project will prioritize strategic Value Chains (VC), some of which have already been identified by MINECO. Starting in 2015, MINECO began systematically reviewing value chains and selected several for their agro-industrial and development potential. These selected value chains include, but are not limited to, vegetables, papaya, cardamom, potato and beans. These value chains were selected due to their capacity to: (i) add value to their products, and differentiate them by augmenting their transformation processes (ii) incorporate more and/or new MSMEs to the VCs, (ii) generate more quantity and quality jobs in the agro-industrial sector, (iii) improve coordination and articulation between the different actors in strategic national VCs, and (iv) decrease food losses and production costs as well as increase competitiveness in the agri-food system. These VC operate mainly in the departments of Sacatepéquez, Chimaltenango, Suchitepéquez, San Marcos Petén, Sololá, as well as in the so-called Northern Transversal Strip, that includes the territories of Alta Verapaz, Baja Verapaz, Quiché, Huehuetenango and Izabal. Given the analysis done by MINECO to identify these as priority value-chains for the country and their agro-industrial potential.

Detailed project location(s) and salient physical characteristics relevant to the ESS Assessment (geographic, environmental, social)

While the project is national in scope for traceability and information systems, institutional strengthening activities and monitoring, evaluation and project management, it will target strategic national value chains (VC) prioritized by the Government of Guatemala (GoG) to provide technical assistance and finance investments. Following a review and analysis undertaken by the Ministry of Economy (MINECO) based on their agro-industrial and development potential, the following VC were prioritized: vegetables, papaya, cardamom, potatoes and beans. These VC are mainly located in the departments of Sacatepéquez, Chimaltenango, Suchitepéquez, Sololá, Alta Verapaz, Baja Verapaz, Huehuetenango, Quiché, San Marcos, Petén and Izabal. Based on the data of the most recent national census (2018), 4,746,184 indigenous peoples identified themselves as pertaining to Maya group (the main indigenous peoples' group). A total of 6 out of the 11 departments considered have an important percentage of Mayan indigenous population. In Chimaltenango, Sololá, Alta Verapaz and Quiché departments, Mayas constitute more than 75% of total population. Other indigenous and afro descendants' groups are less than 1% in all departments under consideration.

Guatemala also shows high levels of illiteracy, particularly in indigenous territories. The departments of Alta Verapaz and Quiché have a staggering 66% and 64% of people who can read and write, respectively. Out of the other 9 departments considered for project intervention, only 2 have literacy levels above 80%. Poverty rates have increased from 55% in 2000 to 60% in 2014 and it is particularly marked amongst indigenous peoples, with almost 80% living in poverty by 2014 and half in extreme poverty. In all 11 departments there are more than 4.2 people per household, going beyond 5 people per household in Huehuetenango, Quiché and Alta Verapaz, coinciding once again with high presence of indigenous groups. Stunting rate in Guatemala is like in African countries; it is the fourth highest rate of malnutrition in the world and the highest in Latin America, being especially acute in indigenous and rural areas. These structural obstacles coupled with the historic racism and discrimination that IPs face, can hinder their ability to apply for project's support and enjoy its benefits on an equal footing.



The Guatemalan context is also characterized by high levels of crime and violence. While the number of homicides has been significantly reduced in the last 10 years from 6,498 per year in 2009 to 3,884 in 2018, it is still high. Five of the departments where the project plans to intervene are among the 10 departments with the highest percentages of homicides per year, ranging from 101 in San Marcos to 257 in Pet' n. There is also an inverse correlation between the presence of indigenous peoples and the rate of homicides. The overlap of areas of high incidence of crime and violence with those where the project will intervene, poses additional challenges to ensure provision of technical assistance and investment support as well as monitoring of project activities.

Climate changes poses a number of risks to Guatemala who was ranked the ninth country most at risk from climate change in 2017 and where weather events, including floods and droughts, have had significant negative human consequences and economic. Reduced rainfall and higher temperatures are expected to reduce surface water flows by 10 to 50 percent by 2030 and total water availability by 5 to 30 percent by 2050. Economic losses from drought, flooding and other extreme weather events are projected to impact GDP by between negative 1.3 to 3.7 percent , of which an estimated 40 to 70 percent affects specifically the agriculture sector. In terms of GHG emissions, the country emitted 3.4 tCO₂e/capita in 2011.

Borrower's Institutional Capacity

The project will be implemented by the Ministry of Economy (MINECO). Since the new government took office in January 2020, MINECO has incorporated new leadership with a strong vision for the sector and a solid standing with the Ministry of Finance (MINFIN). It is in charge of formulating and executing consumer protection and competition promotion policies as well as negotiating bilateral and multilateral trade agreements. Collaboration with MINECO will be through its Vice Ministry of Investment and Competition and within it, with the Directorate of National Quality System, the Directorate of Programs and Projects and Directorate of Customer Service and Assistance. MAGA, with comparatively weaker capacity but still an important role in the sector, will be involved in the implementation of selected project activities. The Project Implementation Unit (PIU) will be located within the Vice Ministry of Investment and Competition of MINECO.

MINECO has previous experience working with the World Bank (WB). MINECO implemented the WB-financed Rural Economic Development Program (PDER, P094321) which closed in November 2014. The project included the preparation of an Environmental Management Framework in accordance with the requirements of OP 4.01 Environmental Assessment. Social safeguards policies OP 4.10 Indigenous Peoples and OP 4.12 on Involuntary Resettlement were also triggered, although no resettlement resulted from project implementation. Under PDER, MINECO was in charge of improving competitiveness of supply chains with strong indigenous participation. It consistently achieved its project targets or was close to achieving them. Moreover, when the GoG closed FONAPAZ (a governmental institution that was in charge of PDER's infrastructure construction, e.g. bridges), following underperformance and accusations of corruption, MINECO took over its responsibilities and was able to finish pending civil works. However, only one year before closing, MINECO hired an environmental specialist despite multiple requests from the World Bank on the need to supervise environmental aspects of the project. Lessons learned from the PDER project point to the need of keeping project design simple and with proven implementation arrangements to facilitate the achievement of results in the context of weak implementation capacity.

Due to recent staff changes at MINECO, it is highly likely that staff to be involved in the project have neither participated in the implementation of PDER nor have received any training on the World Bank's Environmental and Social Framework (ESF). While there is a Unit on Gender, Indigenous Peoples and Persons with Disabilities directly in the Minister's office in the new Ministry's structure (October 2019), there is neither an area specialized in environmental and social issues nor specialists within the Vice Ministry of Investment and Competition. At concept stage, it is unknown how many environmental and social specialists will be hired as part of the PIU. This will be agreed during preparation. Due to the COVID-19 pandemic at the time of preparation, World Bank's due diligence on assessing the project's environmental and social (E&S) risks and impacts is based on information provided by the task team and E&S assessments and lessons learned from other projects implemented/under implementation in Guatemala. The fast pace preparation schedule has not allowed for direct engagement with the client to date. More due diligence will be done during preparation on the client's existing



capacity and resources to develop E&S instruments during preparation, and on its needs for capacity strengthening to adequately manage E&S risks and impacts during implementation.

Screening Summary

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. Under components 1, 2 and 3, activities are expected to be temporary, predictable and medium in magnitude and spatial extent, in the already prioritized 11 departments of Guatemala. They will entail site-specific improvements or construction based on pre-approved business plans meeting specific criteria and complying with the Project's positive and negative list that will be part of the Operations Manual. Constructions will be on farm or site, without impacts beyond the actual footprint. Environmental impacts and risks may include those associated with minor on-site vegetation clearing, minor earthworks, altered local rainwater drainage patterns, construction 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.

However, combined E&S rating is considered **SUBSTANTIAL** at Concept Stage, particularly driven by contextual factors and 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; (ii) areas of intervention may be remote and difficult to access due to inadequate and limited infrastructure, particularly during the rainy season from May through November, as well as potential overlapping with high crime and violence areas, creating challenges for providing technical support and effective monitoring; (iii) no existing institutional capacity in MINECO to develop and monitor E&S instruments and no previous experience with the new areas covered by the ESF. During preparation, E&S risk rating will be revisited following meaningful dialogue on E&S issues with the borrower and based on additional information available on its capacity and resources to adequately manage E&S risks and impacts.

To address potential E&S risks and impacts, the borrower will develop, consult and disclose the following instruments by appraisal: (i) draft Environmental and Social Commitment Plan (ESCP); and (ii) draft Stakeholder Engagement Plan (SEP). The specific characteristics of consultations (e.g. timing, structure, communication means and platforms) will be determined during preparation and adapted to the GoG measures, policies and guidelines in response to the COVID-19 pandemic. The results of these consultations will be documented in the draft SEP and integrated into the design of the project and its E&S instruments. The Borrower will also develop, consult and disclose within 30 days of effectiveness: (i) Environmental and Social Management Framework (ESMF), including Labor Management Procedures with a dedicated Grievance Redress Mechanism (GRM) for project workers; (ii) Indigenous Peoples Planning Framework (IPPF); and, (iii) final SEP, including a project-level GRM.

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