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President's memorandum

Republic of Honduras

Extension of the time limit for signature of the financing agreement for the Project for the Economic and Social Inclusion of Small Rural Producers in Northeast Honduras (PROINORTE)

Note to Executive Board representatives

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Executive Board — 131st Session
Rome, 23 November 2020

For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation contained in paragraph 10 of this document.

I. Background

1. The Project for the Economic and Social Inclusion of Small Rural Producers in Northeast Honduras (PROINORTE) is a six-year project and was approved by IFAD's Executive Board in December 2018. Its total cost is US\$46.98 million, with an IFAD loan contribution of US\$16.3 million (34.8 per cent of total project cost). The project is cofinanced by a loan from the OPEC Fund for International Development (OFID) of US\$20.0 million (42.6 per cent of total cost – under negotiation); a contribution from the Government of Honduras of US\$5.3 million (11.4 per cent); and a contribution from project beneficiaries of US\$4.8 million (10.2 per cent).
2. PROINORTE was approved in December 2018, hence it was not included in the 2019 national budget, which had been prepared before project approval. In 2019, the Secretariat of National Coordination certified PROINORTE's strong alignment with national priorities. Thus, the Ministry of Finance included the project in the financial budget law for 2020, approved in 2019.
3. Honduras has been experiencing the impact of the COVID-19 pandemic since March 2020. Confirmed cases have been reported in all 18 departments of the country, with most cases in Cortés and Francisco Morazán. As of 10 November 2020, a total of 100,804 cases, 43,507 recoveries and 2,780 deaths had been registered. Since the first cases were recorded, the country has implemented strict measures to address the pandemic, including closing maritime, aerial and land borders; suspending school and academic activities at all levels; ordering a nationwide curfew; and freezing prices for basic food items and certain medical supplies and equipment.
4. The country was also recently hit by Hurricane Eta, which had major repercussions for food security across the country. Preliminary reports indicate that more than 154,000 hectares of crops have been lost or damaged in the departments of Cortés, Yoro, Santa Bárbara, Atlántida, El Paraíso and Colón. The majority of these departments are included in the PROINORTE project area. The hurricane added to the *force majeure*, as a range of public services had to be suspended due to widespread damage, including regular functioning of government institutions.
5. The World Bank predicts that the country's GDP will contract by 7.1 per cent in 2020 as a result of the pandemic, due to a sharp fall in trade, investment and consumption amid the global slowdown and prolonged containment measures. A deeper than expected GDP contraction and high unemployment rates in the United States – the key trade and investment partner for Honduras and its largest source of remittances – would further amplify this contraction. While employment and income losses are expected to affect the poor, the near-poor and the middle class, the poorest are expected to pay the highest price as they do not have any buffers to activate in mitigation of lockdown and its repercussions on their livelihoods.
6. **Key project objectives.** The project goal is to improve the living conditions of small producers and their families in the northern region by strengthening their organizational, productive, processing and marketing capacities. The development objective is to increase the income and improve the nutrition of small rural producers and their families by enhancing their productivity, diversification, processing and marketing capacities. This will facilitate their inclusion in prioritized value chains and improve their resilience to climate change.

7. **Deadline for signature.** The deadline for signature of the financing agreement is 8 December 2020. IFAD's rules stipulate that if a financing agreement has not been signed within 24 months of approval the allocation will be automatically cancelled.

II. Status of loan signature

8. In November 2020 the Government of Honduras, through both the Ministry of Finance (SEFIN) and the Ministry of Agriculture, submitted an official request to IFAD for a three-month extension of the time period available to sign the PROINORTE financing agreement.
9. The country team has observed clear signs of positive changes at the national level that will facilitate the signing of the financing agreement within the coming months:
- The project has been included in the 2020 national budget and in the 2021 budget proposal, currently under review by the National Assembly;
 - Following the COVID-19 emergency and the impact of Hurricane Eta, the country was enabled to increase its external indebtedness band;
 - An agreement was reached between the Central Bank and SEFIN to modify Honduras' Public Debt Policy, which would guarantee fiscal space for the project;
 - PROINORTE is included in the Rehabilitation Plan for the Agrifood Sector in Honduras, to be rebuilt after the COVID19 crisis; and
 - The Government has issued a positive opinion on the strong alignment of the project with national priorities (a mandatory step for approval by the National Assembly).

III. Recommendation

10. Based on the information and rationale provided above, it is recommended that the Executive Board approve an extension of three months – until 8 March 2021 – of the deadline for signing the financing agreement for the Project for the Economic and Social Inclusion of Small Rural Producers in Northeast Honduras (PROINORTE).