Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 13-Mar-2020 | Report No: PIDA28397
### BASIC INFORMATION

#### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
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<tbody>
<tr>
<td>Honduras</td>
<td>P172567</td>
<td>Honduras DRM Development Policy Credit with a Catastrophe Deferred Drawdown Option (Cat DDO) (P172567)</td>
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<table>
<thead>
<tr>
<th>Region</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
<th>Financing Instrument</th>
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<tbody>
<tr>
<td>LATIN AMERICA AND CARIBBEAN</td>
<td>08-May-2020</td>
<td>Urban, Resilience and Land</td>
<td>Development Policy Financing</td>
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<table>
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<tr>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<tr>
<td>Republic of Honduras</td>
<td>Secretaria de Finanzas (SEFIN)</td>
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#### Proposed Development Objective(s)

The PDO is to strengthen Honduras's institutional and financial framework to manage the risk of adverse natural events including disease outbreaks.

#### Financing (in US$, Millions)

<table>
<thead>
<tr>
<th>SUMMARY</th>
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<tbody>
<tr>
<td>Total Financing</td>
<td>119.00</td>
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<table>
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<tr>
<th>DETAILS</th>
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<tbody>
<tr>
<td>Total World Bank Group Financing</td>
<td>119.00</td>
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<tr>
<td>World Bank Lending</td>
<td>119.00</td>
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</tbody>
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#### Decision

The review did authorize the team to appraise and negotiate.
B. Introduction and Context

Country Context

1. With 9.6 million inhabitants and a per capita annual income of US$2,541 (2018), Honduras is the third poorest country\textsuperscript{1} in the Western Hemisphere, after Haiti and Nicaragua. The Systematic Country Diagnostic (SCD), carried out in 2017, found that the country’s high exposure to two main types of natural hazards—extreme climate events and disease outbreaks—threatens its economic stability and the safety and well-being of its population\textsuperscript{2}. According to the Global Climate Risk Index\textsuperscript{3}, Honduras was the country most severely impacted by extreme weather events between 1996 and 2015, with annual average losses equivalent to 2.1 percent of GDP, affecting critical sectors such as transportation, telecommunications, health, education, water and sanitation. The impacts were far greater for the poorest segments of the population\textsuperscript{4}. Furthermore, the country’s mean annual temperature is projected to rise by 1.9°C within 30 years, with the largest increases in temperature expected to occur from June–August and in the southwest regions. In the northeast, climate change is expected to bring more prolonged, intense heat waves and drought, an increase in heavy rainfall volume and flooding, and more frequent hurricanes.

2. The Government of Honduras has identified DRM and climate resilience as central issues in its policy agenda. The proposed activities in this operation, identified in close consultation with the Government, are consistent with the National DRM Plan (2014-2019); the General Environment Law (1993), reinforced by the General Water Law (2009); and the SINAGER Law (2009). The proposed activities are also aligned with key policy instruments, including the National Climate Change Strategy (NCCS, 2010); the Action Plan Against Desertification and Drought, updated in 2014; the Long-Term Visión de País (Strategic Development Plan) for 2010-2038 and its medium-term Plan de Nación for 2010-2022; and the Agenda Climática de Honduras (Climate Agenda) of 2017.

3. Honduras’s macroeconomic policy framework is adequate for this operation. First, the recent joint World Bank-International Monetary Fund’s (IMF) Debt Sustainability Analysis and corresponding sustainability scenarios suggest the public sector debt is stable, the risk of debt distress for both public external and overall debt is low, and Honduras’s debt carrying capacity is strong. This is due, in part, to the Government’s commitment to the Fiscal Responsibility Law and to adjusting fiscal policy as needed; and in part to its substantial progress on revenue mobilization and the containment of current spending. Second, the external situation is stable, with foreign reserves at about 20 percent of GDP, covering about five months of non-free-economic zone imports. In addition, the financial sector is well capitalized, liquid and profitable. The IMF program is on track, with the first review successfully completed in December 2019. The most important internal risk to the macroeconomic framework comes from the state-owned enterprises, in particular from the Empresa Nacional de Energía Eléctrica (ENEE); the authorities are mitigating this risk by putting ENEE into the pseudo-bankruptcy regime that applies to public entities, giving the Interventorship Commission a broad mandate to restructure it, convening a creditor’s committee, and implementing the Energy Sector Law. A plan to reorganize ENEE is currently under preparation and is due to be finalized in March 2020.

\textsuperscript{1} According to revised official poverty estimates based on an updated methodology, an estimated 48.3 percent of Hondurans (around 4.3 million people) lived below the national poverty line in 2018, a decline from 50.2 percent in 2014. An estimated 22.9 percent of Hondurans (around 2 million people) lived below the national extreme poverty line in 2018, down from 26 percent in 2014. International headcount estimates for 2018 show that 16.5 percent of the Honduran population lived on less than US$1.90 per day (the international poverty line); and around half (50.3 percent) lived on less than US$5.50 per day (the upper middle-income global poverty line).

\textsuperscript{2} Natural hazards also include geological events. Although Honduras has remained largely unaffected by the frequent earthquakes and volcanic activity that characterize other Central American countries, in in 2009, a magnitude 7.1 earthquake killed 7 people and caused estimated losses of US$100 million, including US$35 million in damage to infrastructure. (World Bank 2010).

\textsuperscript{3} Germanwatch 2017.
Relationship to CPF

4. **The proposed operation is fully consistent with the World Bank’s Country Partnership Framework (CPF) for Honduras FY16–20 discussed by the Board on December 15, 2015,** which focuses on the fact that Honduras is susceptible to extreme weather events which disproportionately impact the poor. Pillar 3 of the CPF, Reducing Vulnerabilities, includes “enhancing resilience to disasters and climate change” as one of its objectives. Priority actions under this objective include (a) improving natural resource management as a cost-effective and long-term adaptive measure for climate change; (b) integrating disaster risk management (DRM) into subnational governments’ development planning and public investment decision-making; and (c) reducing the country’s financial vulnerability to disasters to protect its long-term fiscal balance. The proposed operation will help achieve the Pillar 3 objective by improving public financial management and fiscal resilience against disaster risk; strengthening the country’s institutional framework for disaster preparedness and response; and strengthening the legal and institutional framework for DRM and Climate Change Adaptation in the critical sector of water resources management.

C. Proposed Development Objective(s)

The PDO is to strengthen Honduras’s institutional and financial framework to manage the risk of adverse natural events including disease outbreaks.

Key Results

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>Baseline (2020)</th>
<th>Target (2023)</th>
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<tbody>
<tr>
<td>New financial instruments implemented to manage disaster risk and emergencies in accordance with the Disaster Risk Financing Strategy (DRFS) (number)</td>
<td>0</td>
<td>At least 1</td>
</tr>
<tr>
<td>New or updated Sistema Nacional de Gestión de Riesgos (SINAGER) DRM instruments formulated and approved by the new Ministry of Disaster Risk Management and National Contingencies (COPECO) (number)</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Municipalities that have formulated or updated and formally approved their local emergency plans in accordance with the new operational guidelines (percent)</td>
<td>6%</td>
<td>40%</td>
</tr>
<tr>
<td>Health regions with a Regional Pandemic, Epidemic and Health Emergency Response Plan adopted by the Ministry of Health (percent)</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>Weekly epidemiological reports of mandatory notifiable conditions, produced and disseminated following international standards (number)</td>
<td>0</td>
<td>52</td>
</tr>
<tr>
<td>Water Basin Councils created and operating to reduce water-related risks, in the Dry Corridor region in line with the Water</td>
<td>0</td>
<td>5 of 5</td>
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</tbody>
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4 Indigenous Peoples and Afro-descendants are the groups most severely affected by poverty and social exclusion, which is normally exacerbated by extreme water events and disaster risk. While these groups account for an estimated 8.6 percent of the national population, rough estimates from indigenous organizations indicate that more than 70 percent live in poverty and more than half are unemployed. A lack of information from household surveys has translated into a lack of official estimates of poverty rates among these groups.

5 Report No. 98367-HN.
D. Project Description

5. The proposed Honduras Development Policy Credit with Catastrophe Drawdown Option (DPC with Cat DDO) operation aims to comprehensively enhance the legal and institutional framework for managing disasters associated with natural hazards, including disease outbreaks. This will be achieved through institutional and regulatory reforms organized around the following key areas:

- Improving public financial management and fiscal resilience against disaster risk
- Enhancing the institutional framework for improved disaster risk management
- Strengthening health emergency preparedness and response capacities
- Enhancing water resources governance and climate resilience.

6. Prior Action 1: The Recipient has strengthened SEFIN’s disaster risk financing capacity by establishing responsibilities and guidelines to improve financial resilience associated with climate and disaster risks. To improve the country’s fiscal resilience, SEFIN has established new institutional structures for quantifying and managing contingent liabilities associated with climate and disaster risks. These institutional changes are outlined in Ministerial Agreement No. 195-2020, which strengthens SEFIN’s disaster risk financing capacity by (a) granting legal authority to SEFIN’s Fiscal Contingency Unit to identify and quantify continent liabilities from disaster risk and climate change; (b) establishing its mandate to assess the impact of potential disasters on the main fiscal indicators in the Macro-Fiscal Medium-Term Framework; (c) granting legal authority to SEFIN’s General Directorate of Public Credit to design and implement a Disaster Risk Financing Strategy that includes but is not limited to the implementation of financial instruments to build fiscal resilience.

7. Prior Action 2: The Recipient has strengthened its institutional DRM capacity by establishing the Ministry of Disaster Risk Management and National Contingencies (Secretaría de Estado en los Despachos de Gestión de Riesgos y Contingencias Nacionales) and subjecting COPECO to said institution’s administrative jurisdiction. In September 2019, COPECO was upgraded to a ministerial-level institution, the head of COPECO was appointed as Minister of Disaster Risk Management and National Contingencies, and based on its current organization, human and budgetary resources were allocated to strengthen its operation. The Ministry of DRM/COPECO was given responsibility for overseeing and coordinating the entire DRM programmatic agenda in Honduras, including the SINAGER system. This policy action represents a critical step toward improving disaster risk governance and reducing the country’s vulnerability to natural and climate-driven hazards.

8. Prior Action 3: The Recipient has strengthened DRM and Climate Change Adaptation (CCA) at the municipal level by defining responsibilities for the formulation and adoption of local emergency plans that contribute to prevent and address climate risks. In accordance with Article 2010 of the Legislative Decree 171-2019 (2020 General Budget Law), all municipalities are required to elaborate local emergency plans to reduce and respond to climate risk. This legal mandate also includes responsibilities for COPECO, SEFIN, the National Association of Municipalities (AMHON) and the Ministry of Interior and Justice (Secretaría de Estado en los Despachos de Gobernación, Descentralización y Justicia) to provide support, technical and operational guidelines and procedures to help municipalities formulate and implement their plans.
9. **Prior Action 4:** The Recipient has strengthened its preparedness and response capacities for pandemics, epidemics and health emergencies by approving the National Pandemic, Epidemic and Health Emergency Response Plan. This PA will provide a preparedness and response framework for the health sector. These interventions would involve key government agencies as well as local governments, civil society and international cooperation. The Plan adds a significant value to the SINAGER System, since it defines critical elements, such as the definition of health-specific criteria for different levels of alert and emergency (associated with different level of response); decision-making bodies and processes for emergency situations; responsibilities and coordination mechanisms; as well as the identification of critical areas that needs to be strengthened (such as in human resources or communication).

10. **Prior Action 5:** The Recipient has strengthened its health surveillance system by adopting best international practices on early detection, monitoring and response to epidemics and disease outbreaks. Building on Presidential Decree PCM-005-2020 dated February 10, 2020, which declared a state of national health emergency related to the persistent Dengue epidemic and the risk of imported cases of COVID-19, the Government of Honduras decided to adopt best international practices for early detection, monitoring and response to communicable diseases. With this decision, formalized by the Directive Council of SINAGER, the Government recognized the critical need to strengthen the surveillance system to prevent and control epidemics and potential pandemics. This decision was also in keeping with the Prior Action, which committed the country to following recommendations contained in World Health Organization’s (WHO) Surveillance Standards and Vector Surveillance and Control at Ports, Airports, and Ground Crossings.

11. **Prior Action 6:** The Recipient has improved its national and local water management capacities, including DRM and CCA, through the adoption of a Special Regulation on Water Basin Organizations. Enhancing Water Basin Organization’s management will strengthen local capacities, avoid environmental degradation, deforestation and occupation of disaster-prone areas within the water basins and will help to quickly respond to hydro-climatic shocks to their livelihoods and production systems. The special regulation of water basin organizations will also facilitate coordination among different stakeholders and institutions currently working on the consultation process of the bylaw for the regulation (enacting) of the National Water Agency (ANA); it is expected that in the medium and long term, as result of the creation and operation of water basin councils in the Dry Corridor, the ANA will be fully operative, providing critical services and information for reducing water-related disaster risk.

**E. Implementation**

Institutional and Implementation Arrangements

12. **SEFIN is responsible for implementation of the proposed program with the technical support of COPECO, SESAL and the Ministry of Environment.** As the main implementing agency, SEFIN will coordinate with other government agencies involved in implementation of the Cat DDO, including COPECO, the Ministry of Environment and the Ministry of Health; and will be responsible for providing written progress reports to the World Bank on a timely basis. The Government and the World Bank will also maintain a close policy dialogue during the program implementation period through support missions, which will take place no less than every twelve months.

13. **The results indicators selected to monitor progress toward achievement of the PDO reflect defined areas of action and correspond to the expected outcomes of the Prior Actions.** The policy actions and results indicators in the policy framework are aligned with government priorities. Technical assistance activities provided in parallel by the World

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6 Operational, implies ANA with a minimum HR structure, adequate planning, manual and guidelines prepared and approved.
Bank will support some action areas of the proposed operation and reporting on the progress of technical activities will further enhance the regular monitoring and evaluation of the operation.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

14. **Prior Actions 1 and 2** focus on the preparation and implementation of a disaster risk financing strategy; and strengthening/operationalization of the newly established Ministry of Disaster Risk Management and National Contingencies. These Prior Actions will have indirect positive benefits on poverty and society by enabling the Government to assess and quantify the disaster-related needs of the poor and vulnerable segments of the population and to mobilize financing to deliver resources more quickly and effectively to disaster-affected communities.

15. **Prior Actions 1 and 2** should help to shorten the interval between a disaster and response/recovery efforts, thereby reducing the prevalence of negative coping strategies by impoverished families in the aftermath of adverse climate-related events. Prior Action 1 will also result in better access to information about the flow of disaster financing (for which purposes, to which communities), helping to increase social accountability around disaster risk financing.

16. **Prior Action 3** focuses on institutionalizing emergency planning and recovery capacity in local development planning by municipalities. These local planning activities are intended to include vulnerable and marginalized groups who live in disaster-prone areas and have had limited or no engagement with local authorities for disaster planning. The Prior Action will likely generate direct positive poverty and social impacts by improving the quality of municipal plans and ensuring that the specific disaster-related needs of poor and vulnerable communities are taken into account. The Prior Action should help to promote better public understanding and dialogue within the municipality about what to expect if a disaster strikes, the responsibilities of the community and the kinds of support that will be provided. This Prior Action will not support resettlement actions related to these institutional reforms and zoning plans.

17. **Prior Actions 4 and 5** will focus on strengthening multisectoral approaches to preparedness and response by improving health surveillance practices and establishing clear operational procedures within the health sector. These Prior Actions will enhance the health surveillance system by adopting best international practices for early detection, monitoring and response to communicable disease within the framework of the *National Pandemic, Epidemic and Health Emergency Response Plan*. Improving epidemiological surveillance and the sophistication of health-crisis preparedness plans will improve knowledge about the health conditions of poor and extremely poor populations in each of the regions. Early detection of disease outbreaks is expected to have indirect positive poverty and social impacts by increasing the number of households that receive appropriate attention in the event of epidemiological crisis.

18. **Prior Action 6** will focus on strengthening water resources governance and enhancing climate resilience in the Dry Corridor, through the formation of water basin governance organizations. Poor and vulnerable communities in the Dry Corridor have less access to water for human consumption and for agricultural production than do richer segments of the population. Resilience among poor rural households, i.e., their capacity to maintain viable agricultural livelihoods in the face of alternating flood and drought risks, is closely linked to the Government’s capacity to plan and manage water resources. This Prior Action will likely have indirect social benefits by increasing equitable access to and use of water resources, and by supporting community representation in water governance structures. Improved governance of water resources will also improve the local-level preparation for disasters.
19. **Prior actions selected for the proposed operation are expected to have a moderate, positive and/or indirect impact on Honduras’s environment and other natural resources.** In times of widespread disaster, a country’s natural resource stock provides a safety net of last resort for poor and vulnerable populations without access to credit or financial resources, particularly if they are cut off from basic services. In Honduras, this translates into the potential for natural disasters to increase the stress on forests and other natural resources. For example, communities that lose electricity service may resort to collecting and burning firewood for fuel; or farmers may unsustainably intensify land use to make up for short-term losses following floods, drought or other climate-related shocks. By taking steps to strengthen institutions and plans for disaster risk reduction and response—notably through Prior Actions 1, 2, 3 and 6—Honduras is indirectly reducing potential stressors on the land and forests. Prior Action 6, which focuses on improving water resource governance in the Dry Corridor, may lead to direct environmental benefits by strengthening the protection and sustainable management of upstream aquifer recharge zones, which will improve basin-level climate resilience. Prior Actions 4 and 5, which focus on strengthening multisectoral approaches for health preparedness and response through approval of the National Pandemic, Epidemic and Health Emergency Response and the development of regional subplans, are expected to have a neutral impact on the environment. There is a possibility for negative environmental impacts stemming from increased use of chemical pesticides for vector control, such as widespread mosquito spraying for Dengue. Such impacts can be mitigated by ensuring compliance with regulations on the handling and use of pesticides for public health purposes.

20. **Climate co-benefits for the proposed operation are expected to be high, as most of the policy actions directly contribute to building resilience to climate-related disasters.** CCA considerations are explicitly integrated in all the Prior Actions, translating to a very high percentage contribution to climate co-benefits. In this context, by enhancing Honduras’s adaptive capacity and resilience, the proposed program aims to reduce the vulnerability of people and critical sectors to the impacts of climate change and risks related to climate variability.

G. Risks and Mitigation

21. **The overall risk associated with this operation is considered Substantial,** given that there are several obstacles to achieving the program’s objectives. Specific risks assessed as Substantial are:

   a. **The political and governance risk.** Political polarization may delay approvals of World Bank investment projects or move the focus and/or funds from the implementation of World Bank’s projects, thereby limiting achievement of the PDO. To mitigate this risk, the World Bank will continue to focus on critically important areas for the country’s development and will engage in dialogue with all stakeholders on shared development objectives.

   b. **Macroeconomic risk, stemming from both external and domestic factors.** Externally, a slowing global economy, in conjunction with commodity price fluctuations, will weaken external and fiscal accounts. Adverse weather conditions and lower international prices for key agriculture products (especially coffee) could create large agricultural losses and lower exports. Domestically, the increasing political polarization poses a risk to macroeconomic instability. Cumulatively, these risks are expected to negatively impact the economy, especially poor households that are highly dependent on agriculture outputs and remittance income. In addition, the persistent deficit of ENEE threatens Honduras’s fiscal position, while changes to the Tax Code have weakened tax revenues. The resulting limited fiscal space could impact project execution. The Government aims to strengthen fiscal sustainability through stronger fiscal consolidation and adoption of a comprehensive plan to rescue the country’s electricity system and reduce the debt of ENEE. While these risks are considered substantial, the
Government’s commitment and macroeconomic prudence in general are expected to support the success of the Cat DDO. The team will closely track these issues with the Government and, if necessary, modify component activities.

c. Institutional capacity for implementation risk is *Substantial* due to weak inter-institutional coordination and the lack of technical experts. Implementation of the proposed operation will require the collaborative work of several actors at the national and regional/local levels to move the proposed policy actions forward. The inter-institutional and multi-sectoral approach is not yet internalized by all key stakeholders. This could result in scattered, low-impact or uncoordinated actions. This risk will be mitigated through (a) communication and promotion of the DRM and CCA agenda in the context of ongoing technical assistance aimed at strengthening the country’s disaster risk financing capacity; and (b) minimizing the administrative burden by focusing on a narrow range of policy actions.

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<td>Task Team Leader(s):</td>
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