

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HONDURAS

CONTINGENT LOAN FOR NATURAL DISASTER AND PUBLIC HEALTH EMERGENCIES

(HO-00008)

LOAN PROPOSAL

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Proposed resolution

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| REQUIRED LINKS | |
|-----------------------|--|
| 1 | Monitoring and evaluation plan |

| OPTIONAL LINKS | |
|-----------------------|---|
| 1 | Economic analysis of the project |
| 2 | Program Operating Regulations |
| 3 | Automatic redirection list (ARL) |
| 4 | Technical paper. Contribución a la Adaptación a Cambio Climático [Contribution to Climate Change Adaptation] |
| 5 | Bibliography |
| 6 | Technical paper. Alineación con el Tema Transversal de Equidad de Género [Alignment with the Crosscutting Issue of Gender Equality] |
| 7 | Integrated Natural Disaster Risk Management Plan (INDRMP) |
| 8 | Safeguard Policy Filter (SPF) |

ABBREVIATIONS

| | |
|----------|--|
| ARL | Automatic redirection list |
| CCF | Contingent Credit Facility for Natural Disaster and Public Health Emergencies |
| CENAOS | Centro de Estudios Atmosféricos, Oceanográficos y Sísmicos [Center for Atmospheric, Oceanographic, and Seismic Studies] |
| COPECO | Comisión Permanente de Contingencias [Standing Commission on Emergencies] |
| COVID-19 | Novel coronavirus disease caused by the SAR-CoV-2 virus |
| DRFS | Disaster Risk Financial Strategy |
| DRM | Disaster risk management |
| FONAPRE | Fondo Nacional de Preparación y Respuesta a Emergencias [National Emergency Preparedness and Response Fund] |
| IHR | International Health Regulations |
| INDRMP | Integrated Natural Disaster Risk Management Plan |
| MEP | Monitoring and evaluation plan |
| NPV | Net present value |
| OC | Ordinary Capital |
| OVE | Office of Evaluation and Oversight |
| PAHO | Pan American Health Organization |
| PEGIRH | Política de Estado para la Gestión Integral del Riesgo en Honduras [State Policy for Integrated Risk Management in Honduras] |
| PNGIRH | Plan Nacional de Gestión Integral del Riesgo de Honduras [Integrated National Risk Management Plan of Honduras] |
| SEFIN | Ministry of Finance |
| SESAL | Ministry of Health |
| SIAFI | Sistema de Administración Financiera Integrada [Integrated Financial Administration System] |
| SINAGER | Sistema Nacional de Gestión de Riegos [National Risk Management System] |
| WAL | Weighted average life |
| WHO | World Health Organization |

PROJECT SUMMARY

HONDURAS CONTINGENT LOAN FOR NATURAL DISASTER AND PUBLIC HEALTH EMERGENCIES (HO-00008)

| Financial Terms and Conditions | | | | | | | | | |
|--|--|--|--------------------|-----------------------------|--|---|-----------------------------|--|-------|
| Borrower: Republic of Honduras | | | | | | Regular OC (FFF)^(a) | Concessional OC | | |
| | | | | Amortization period: | | 25 years ^(c) | 40 years ^(c) | | |
| Executing agency: The borrower, acting through the Ministry of Finance (SEFIN) | | | | Grace period: | | 5.5 years ^(c) | 40 years ^(c) | | |
| | | | | Original WAL: | | 15.25 years ^(c) | N/A | | |
| Source | | Amount (US\$ million) | | | % | | Disbursement period: | | |
| | | Modality I | Modality II | Total | | | 5 years ^{(d) (e)} | | |
| Ordinary Capital (OC) | | 195 | 65 | 260 | 65 | Interest rate: | | LIBOR-based ^(f) | 0.25% |
| Concessional OC | | 105 | 35 | 140 | 35 | Inspection and supervision fee: | | ^(g) | N/A |
| Total | | 300 | 100 | 400 | 100 | Drawdown fee: | | ^(h) | N/A |
| | | | | | | Currency of approval: | | United States dollar | |
| Project at a Glance | | | | | | | | | |
| Project objective: The general objective of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on public finances. The specific objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures to aid the population affected by natural disaster and public health emergencies. | | | | | | | | | |
| Special contractual condition of general eligibility to request disbursements: The approval and entry into force of the program Operating Regulations on the terms previously agreed upon with the Bank (paragraph 3.5). | | | | | | | | | |
| Special contractual conditions precedent to the first disbursement for each eligible event: (a) Disbursements under Modality I (natural disasters): (i) the Bank has verified the occurrence of an eligible event defined in the program Operating Regulations ; and (ii) the Integrated Natural Disaster Risk Management Plan (INDRMP) , previously agreed upon with the Bank, is being implemented to the Bank's satisfaction (paragraph 2.7); and (b) Disbursements under Modality II (public health events): (i) the Bank has verified the declaration of a national public health emergency due to an eligible public health event as defined in the program Operating Regulations ; (ii) the borrower has submitted evidence that it is up to date with its progress reporting to the World Health Organization (WHO) on compliance with International Health Regulations (IHR); (iii) the borrower has submitted evidence to the Bank's satisfaction that it has a national preparedness and response plan for the specific event, in line with WHO/Pan American Health Organization (PAHO) recommendations, to address the event for which it has declared a national public health emergency; and (iv) the Bank has verified the borrower's compliance with the agreed complementary risk retention financing measures and conditions. In addition to the aforementioned contractual conditions, the borrower will have submitted, within 90 calendar days after the occurrence of an eligible event, one or more disbursement requests specifying the amount(s) of such disbursement(s), whether they will be drawn from the regular lending program, undisbursed balances from the automatic redirection list (ARL) , or a combination of these two sources. In the case of loans from the ARL , the request will identify the loans in question and the respective amount to be utilized (paragraphs 3.6 and 3.7). For special contractual conditions for execution, see Annex III. | | | | | | | | | |
| Exceptions to Bank policies: None. | | | | | | | | | |
| Strategic Alignment | | | | | | | | | |
| Challenges: ⁽ⁱ⁾ | | SI <input checked="" type="checkbox"/> | | | PI <input type="checkbox"/> | | | EI <input type="checkbox"/> | |
| Crosscutting themes: ⁽ⁱ⁾ | | GE <input checked="" type="checkbox"/> and DI <input type="checkbox"/> | | | CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/> | | | IC <input checked="" type="checkbox"/> | |

^(a) Financial terms and conditions of the contingent loan under the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (document GN-2999-4, approved by the Board of Executive Directors pursuant to Resolution DE-40/20 of 12 May 2020).

^(b) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(c) Amortization periods, weighted average life (WAL), and grace periods are counted from the date of each disbursement.

^(d) The disbursement period or coverage period (equivalent terms) is renewable for up to five additional years, at the Bank's discretion, following a request by the borrower.

- (e) Disbursements of the financing will be contingent on the availability of sufficient resources from the [ARL](#) or the Bank's regular lending program for Honduras, as applicable, when the disbursement is requested (paragraph 2.5).
- (f) In keeping with document FN-729 (Strategy and Operational Readiness for the Execution of the LIBOR Transition for the IDB Balance Sheet) and document CF-257-1 (Base Rate Replacement for Sovereign Guaranteed LIBOR-based Loans), this loan will be subject to the SOFR-based interest rate, upon notification to the borrower by the Bank or at the borrower's request, pursuant to the provisions of the loan contract.
- (g) The inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.
- (h) The fee is not charged if the loan is not used. The Bank will charge a one-time fee of 50 basis points only on the date of disbursement, applicable solely to the amount disbursed against resources from the regular lending program. This fee is applicable to each disbursement. The drawdown fee will be subject to periodic review by the Board of Executive Directors, as with all lending charges, and will not in any case exceed 75 basis points. The fee does not apply to amounts disbursed from loans included in the [ARL](#).
- (i) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- (j) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1. The country's vulnerability to natural disasters and climate change

- 1.1 Honduras is exposed to multiple geophysical hazards (earthquakes) and hydro-meteorological hazards (floods, hurricanes, and drought) with significant human and economic impacts that have put it in forty-second place globally in terms of the impacts of climate phenomena over the last 20 years [1].¹ Between 1961 and 2020, the country experienced 91 severe events, 52 of them since 2001, reflecting increased frequency. The most recurrent events are floods, accounting for 42% of events during the period and 4% of cumulative losses, while the most severe events are tropical storms, accounting for 27% of the events occurring in the review period but causing 95% of the recorded losses [2].
- 1.2 Major natural disasters included: Hurricane Mitch (1998), with estimated damage of 60% of GDP and affecting more than two million people; Hurricane Fifi (1974), that caused damage equivalent to 50% of GDP [3]; and Tropical Storms Eta and Iota, which affected the northern and eastern parts of the country in November 2020 with estimated damage of 7.8 percent of GDP.²
- 1.3 **Climate change.** As the impact of climate change intensifies, phenomena like floods and tropical cyclones are expected to increase in frequency and strength, and their economic impacts could reach as much as 9% of GDP by 2030 [4]. In light of this situation, Honduras has been working to make climate change a crosscutting issue with the climate change law (Decree 297-2013) and the Climate Change Strategy.
- 1.4 **Gender and natural disasters.** Disasters tend to have a greater impact on the most vulnerable population groups [5], who have fewer ways of coping with such events, especially in developing countries [6]. In Honduras, for example, a higher proportion of those affected by Hurricane Mitch were low-income women heads of household [7]. Accordingly, disaster risk mitigation measures with a gender lens are essential to mitigate the potential impact of natural disasters on women. In turn, preventing gender-based violence in disaster situations remains a challenge in Honduras. The response to Tropical Storms Eta and Iota evidenced a lack of mechanisms and protocols for preventing gender-based violence in shelters, as well as the need for capacity-building for those in charge [8] ([Technical paper. Alignment with the crosscutting issue of gender equality](#), optional link 6).

2. The country's vulnerability to public health events

- 1.5 As of 8 November 2021, 376,281 confirmed cases of COVID-19 and 10,309 deaths have been reported in the country due to the pandemic caused by the SARS-CoV-2 virus.³ [9] The Government of Honduras reacted quickly to the imminent arrival of the disease, issuing a declaration of emergency⁴ and declaring

¹ See [Bibliography](#) (optional link 5).

² Estimate of the Economic Commission for Latin America and the Caribbean (ECLAC). The total budgetary requirements to care for the affected population and provide for recovery and rehabilitation of losses amount to approximately US\$127 million.

³ In all, 2,174,961 cases and 44,654 deaths have been reported in Central America.

⁴ Executive Decree PCM 020-2020.

a state of emergency with nationwide curfew provisions.⁵ Under these, schools and businesses were shuttered, and circulation was only allowed for essential activities, before curfew, which was in effect from 5:00 p.m. to 7:00 a.m. All movement of vehicles and people was restricted to one day per week, outside of the curfew.⁶ These measures were relaxed in November 2020, to allow the economy to recover, as the case incidence declined. The relaxation of some nonpharmaceutical measures, together with the spread of new strains of the virus and the problems of early access to COVID-19 vaccines made it difficult to control the pandemic. The responsiveness of the country's health system was hurt by Tropical Storms Eta and Iota in November 2020, which in addition to affecting public infrastructure, livestock, and agriculture, impacted health sector operations by: (i) damaging infrastructure at health facilities; (ii) making it difficult for workers to reach health units; and (iii) significantly damaging utilities and medical equipment, as well as limiting the supply of medications and supplies, primarily personal protective equipment [10].

- 1.6 Honduras is also highly vulnerable to vector-borne epidemics and outbreaks such as dengue fever, chikungunya, and zika. One of the highest dengue figures was recorded in 2019, with 112,708 cases, 19,435 of which were serious and produced 180 deaths [11], leading to a declaration of emergency.⁷ As part of the response, large numbers of personnel were contracted to provide care in the field and in hospitals; medications, supplies, and small equipment were purchased; and stabilization units were implemented, to care for those with dengue symptoms in different locations throughout the country.

3. Financial vulnerability to natural disasters and public health events

- 1.7 In 2020, Honduras suffered a strong decline in its economic activity and significant fiscal deterioration due to the COVID-19 health crisis, a situation exacerbated by the impacts of the storms Eta and Iota. The Central Bank of Honduras estimates that GDP contracted 9% in 2020, compared to 2.7% growth in 2019. The fiscal imbalance in 2020 resulted in a deficit of 5.5% of GDP (the highest since 2013, at 7.5% of GDP). A moderate recovery is expected in 2021 with 4.2% growth, although this is subject to the uncertainty produced by the evolution of the pandemic, the effectiveness of policies while vaccines are being deployed, and the electoral process. In this regard, the authorities are committed to reducing the fiscal deficit in line with the Fiscal Responsibility Law, so it is projected to return to 1.0% of GDP in 2023.
- 1.8 In this context of limited fiscal leeway, the occurrence of other severe natural disasters would complicate the government's continued efforts to stabilize the debt and confront the challenges of reducing poverty and inequality. A catastrophic natural disaster, recurring once every 100 years, would cause damage equivalent to 14% of GDP [12]. Future pandemics could also cause significant contingent fiscal liabilities. For example, extraordinary public expenditures on health due to

⁵ Executive Decree PCM 021-2020.

⁶ Based on the last digit of one's personal identification card.

⁷ Executive Decree PCM 028-2019.

the COVID-19 pandemic outbreak are estimated at approximately 1% of GDP.⁸ These risks underscore the need to continue building fiscal resilience.

4. Natural disaster risk management in Honduras⁹

- 1.9 **Governance and development of the overarching framework.** Disaster risk management (DRM) in the country is based on the [law establishing the National Risk Management System](#) (SINAGER), approved in 2009 as the legal framework for risk prevention, response preparedness, and postdisaster recovery. This law establishes the role of the Standing Commission on Emergencies (COPECO), created in 1990 and reporting to the Department of Risk Management and National Emergencies pursuant to Executive Decree PCM-057-2019, expanding its responsibilities to coordinate disaster management and putting the SINAGER Executive Secretariat in its charge. There are also the [State Policy for Integrated Risk Management in Honduras](#) (PEGIRH), approved in 2013, and the [Integrated National Risk Management Plan of Honduras](#) (PNGIRH) for the period 2014-2019, which is being updated.¹⁰ Challenges in this area are the need to strengthen the definition of DRM responsibilities in the sectors most vulnerable to disaster risk, such as transportation and agriculture, as well as at the subnational level, incorporating gender considerations.¹¹
- 1.10 **Risk identification and awareness.** The Center for Atmospheric, Oceanographic, and Seismic Studies (CENAOS), reporting to COPECO, was created to consolidate scientific information and strengthen monitoring, surveillance, and observation systems and the study of natural phenomena. Nonetheless, the country still needs to pursue modernization of the meteorological and hydrological service. Moreover, although the land use planning law establishes the obligation of natural hazard zoning in cities and promotes unified risk management nationwide, the use of risk assessment needs to be strengthened at the sector and subnational level.
- 1.11 **Disaster risk reduction.** To promote disaster risk reduction measures during the construction phase of public infrastructure projects, SEFIN has incorporated DRM into the “General Methodological Guide for the Formulation and Evaluation of Public Investment Programs and Projects,” which requires disaster risk and climate change analysis to be included in the pre-investment stage. The implementation of these guidelines needs to be promoted, adapting them to key sectors such as agriculture and transportation. In addition, besides increasing investments in risk reduction, the country needs to promote a comprehensive subnational approach to reducing the risk of floods and droughts using watershed logic, giving priority to those watersheds where populations and economic activities are most concentrated.

⁸ Ministry of Finance (SEFIN) estimate based on budgetary allocations, contracted financing, and resources redirected for extraordinary public expenditures on health in order to respond to the COVID-19 pandemic. This estimate does not yet include the cost of the national COVID-19 vaccination plan.

⁹ See [Integrated Natural Disaster Risk Management Plan \(INDRMP\)](#) for more detail.

¹⁰ Formal approval is expected in 2022.

¹¹ Informe de Gobernabilidad y Políticas Públicas en Gestión de Riesgo de Desastres de Honduras. Government of Honduras. 2014.

- 1.12 **Emergency preparedness.** At the national level, COPECO is the entity responsible for emergency coordination, preparation, and response, as stipulated in the SINAGER Law and the 2020-2021 National Plan for Responding to Emergencies, Disasters, or Public Calamity. At the regional level, the Municipal Emergency Committees develop municipal emergency plans, which must be updated by incorporating a gender perspective. In addition, the use of technology tools facilitating the collection of information on damage needs to be promoted, to streamline the immediate response actions that in Honduras are based on damage assessments and needs analyses. Policies that strengthen the management of shelters and capacity-building to manage them are also necessary, including an approach based on gender and the prevention of gender-based violence.
- 1.13 **Financial risk management.** The country has developed a [Disaster Risk Financial Strategy](#) (DRFS), approved in 2020, that identifies the type of financing instruments it needs for responding to natural disaster emergencies. As part of the implementation of the DRFS, Honduras: (i) has asked the Bank for a contingent loan under the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (CCF), which provides parametric coverage for tropical cyclones, floods, and earthquakes; (ii) is in the process of contracting a parametric insurance policy under the insurance mechanism against catastrophe risks in the Caribbean to cover rainfall excess; and (iii) is working on a new catastrophe deferred drawdown option (CAT-DDO) loan with the World Bank for natural disasters and public health events. These supplemental risk transfer and retention instruments allow the country to structure ex ante financial coverage for addressing natural disaster emergencies. The country's continuing challenges are to define the role of the National Emergency Preparedness and Response Fund (FONAPRE) and continue implementing ex ante financial coverage through financial instruments and mechanisms identified in the DRFS.

5. Public health risks management in Honduras

- 1.14 The Ministry of Health (SESAL) is the apex agency of the health sector, responsible for information analysis and disclosure and monitoring of health status, contributing and determining factors, and trends, in order to identify their risk and impact and make recommendations for decision-making. The health surveillance unit is responsible for four areas of operation: (i) epidemiological surveillance; (ii) environmental risks; (iii) the health surveillance laboratory; and (iv) health risk management in emergencies and disasters. SESAL's risk management area coordinates risk assessment and health surveillance actions in the event of emergencies and disasters, in addition to setting criteria for action in response to states of alert declared by COPECO and supporting the declaration of epidemiological emergencies with key actors at the national level and the health regions and their integration in the SINAGER. The health surveillance laboratory area is responsible for the national and international resource epidemiological laboratory. It also implements the quality controls of the network of health surveillance laboratories and supports the health regions in performing more complex examinations.
- 1.15 In terms of the health system's capacity to respond to emergencies, Honduras has a medium-low level of preparedness and capacity for detecting, assessing, reporting, and responding to public health risks and events, according to the most

recent International Health Regulations (IHR)¹² evaluation (February 2021), scoring below the global and regional average capacity [13]. Notable strengths identified are: (i) the human resources available for implementation of the IHR; (ii) coordination with national liaison centers; and (iii) multisector coordination mechanisms, primarily with the institutions that make up the SINAGER, international agencies, and SESAL for the control of infectious diseases. The country's challenges are legislative capacity and timely financing, access to essential health services, clinical case treatment capacity, infection prevention and control capacity, resource mobilization for emergencies, and communication of emergency risk. With help from the Bank (paragraph 1.20) and other agencies and donors, the country has been reorganizing the services network, strengthening responsiveness,¹³ improving its virology laboratory network,¹⁴ strengthening the epidemiological surveillance system,¹⁵ developing strategies for communication with citizens, and incorporating telemedicine and digital applications to facilitate access to essential health services.

6. Risk financing and transfer programs for natural disaster and public health emergencies

- 1.16 Natural disasters and public health events produce long-lasting economic and social costs. The CCF seeks to provide borrowing member states with significant liquid resources immediately after an emergency event, to cover extraordinary public expenditures. The Bank has made significant progress in enhancing the region's financial resilience in the face of natural disasters (paragraph 1.21), and in 2020, in response to the global challenge posed by the COVID-19 pandemic, expanded the scope of the facility to include public health risks (document GN-2999-4). Public health risks are similar to natural disaster risks because they are unpredictable shocks with a low probability of occurrence, are not correlated with economic factors, tend to have a great impact on the most vulnerable populations, and are a major source of contingent fiscal liabilities.
- 1.17 The design of the CCF under a broader natural disaster and public health event risk financing and transfer program assumes the existence of budgetary and financial constraints, such that no single instrument can efficiently cover all levels of risk on its own. It is imperative to use different instruments that can be adapted to cover specific layers of risk, depending on the probability of their occurrence and the magnitude of the anticipated impact.[14] Accordingly, the use of reserve funds is recommended, to cover public expenditures resulting from frequently recurring, smaller-scale events. For more severe but lower probability events, the

¹² The IHR is an agreement among the 196 members of the World Health Organization (WHO) to work together on public health risk prevention and response. The [IHR Annual Report](#) assesses country capacity and response. The WHO estimated that Honduras has a level-2 country preparedness and response status for COVID-19 (with 1 being lowest, and 5 highest).

¹³ The World Bank, the Central American Bank for Economic Integration, and the IDB have supported financing for the purchase of medical equipment for hospital wards and intensive care units in all public hospitals (paragraphs 1.1 and 1.20).

¹⁴ Three new virology laboratories were set up with investments from the United States Agency for International Development and the IDB.

¹⁵ Support from PAHO and the Bank has strengthened the information system for epidemiological surveillance with software, hardware, connectivity, and human resources.

use of long-term contingent debt and risk transfer instruments is recommended, such as insurance and/or catastrophe bonds. [15]

- 1.18 The availability of ex ante financial coverage for emergencies enables countries to partially reduce the risk of worse scenarios in terms of an event's impact on the public accounts and vulnerable populations by fast-tracking resources to meet the costs of the emergency response. This has been confirmed in studies by the Bank [16] and other multilaterals such as the International Monetary Fund. [17]

7. The operation in the Bank's sector and country strategy

- 1.19 **The Bank's support in integrated disaster risk management.** The Bank has been supporting the strengthening of DRM of borrowing member countries in line with the Bank's Disaster Risk Management Policy (document GN-2354-5). Between 2010 and 2018, the Disaster Risk Prevention and Mitigation Project (loan [2152/BL-HO](#), approved for US\$19 million in 2009, executed) contributed to improved performance at the national and municipal level in risk identification and reduction, as well as in disaster management. However, the CCF (loan [HO-X1016](#)) in effect from 5 December 2012 to 4 December 2017 did not see any event that was eligible for disbursement. This operation will incorporate the lessons learned, particularly on operational and execution issues, from the multiple CCFs approved since then (paragraph 1.21). The Bank also has an important agenda to provide support on climate change mitigation and adaptation issues in Honduras, particularly in the energy, agriculture, and forestry sectors, which have aligned with the nationally determined contribution.
- 1.20 **The Bank's support in the public health sector.** Since 2011, the Bank has been supporting the Government of Honduras in financing the contracting of providers or managers other than SESAL for the delivery of health services, through the execution of four projects¹⁶ under the Decentralized Management Model. In addition, resources were reformulated to direct US\$50 million¹⁷ to the immediate public health response to contain and control COVID-19 and mitigate its effect on health services delivery in Honduras. One of the principal lessons learned was to streamline the hiring of human resources and the purchase of medications and supplies through agreements signed with nonprofit nongovernmental organizations to comanage COVID-19 patient care services in triage centers and hospitals.
- 1.21 **Good practices and lessons learned from the CCF.** The Bank has approved fourteen loans from the CCF with four disbursements totaling US\$280.5 million (loan [3670/OC-EC](#) for US\$160 million in 2016, executed; loan [4331/OC-DR](#) for US\$16 million in 2017; and loan [4853/OC-BH](#) for US\$80 million in 2019; and

¹⁶ "Program to Strengthen Decentralized Management and Supply of Health Services in Honduras" (loan [2418/BL-HO](#) for US\$27.5 million in 2010, executed); "Program to Support the Social Inclusion Network with Priority in Western Honduras" (loan [3723/BL-HO](#) for US\$50 million in 2016, now in execution); "Program for Improved Accessibility and Quality of Health Services and Networks" (loan [2943/BL-HO](#) for US\$50 million in 2013, executed); and "Project to Improve the Management and Quality of Maternal-Neonatal Health Services" (loan [4619/BL-HO](#) for US\$69 million in 2018, now in execution).

¹⁷ The reformulated loans were [4449/BL-HO](#) for US\$15 million; [3815/BL-HO](#) for US\$20 million, and [4518/BL-HO](#) for US\$15 million.

- [5195/BL-NI](#) for US\$24.5 million in 2020, all three now in execution).¹⁸ The design of this operation has incorporated the lessons learned and introduced improvements such as: (i) refining the methodologies for calculating the triggers for loans under Modality I; (ii) strengthening the coordination and execution mechanism among the executing agency, COPECO, SESAL, and other institutions involved in emergencies (paragraph 3.4); and (iii) defining rules of operation to ensure an effective and efficient process for the supervision and execution of these operations. In addition, with the CCF expanded to include public health risks, the Bank has approved four CCF loans with coverage for COVID-19 and two CCF operations with public health risk coverage, the specific features of which are reflected in the loan documents. These considerations include, for example: (i) the disbursement conditions (paragraph 3.6); (ii) the importance of clarifying interagency coordination for public health emergencies (paragraph 3.3); and (iii) the country's legal framework and procedures for declaring a national public health emergency (Annex II of the program [Operating Regulations](#)).
- 1.22 The relevance and effectiveness of the instrument have been verified and supported by recent experiences and documented in the "Country Program Evaluation: Ecuador 2012-2017," prepared by the Office of Evaluation and Oversight (OVE) [18], and the OVE-validated project completion reports on the operations to respond to emergencies caused by the Manabí earthquake in 2016 in Ecuador (loan [3670/OC-EC](#)) and Hurricane María in 2017 in the Dominican Republic (loan [4331/OC-DR](#)). The main lessons learned indicated by the OVE and incorporated in the project include: (i) commissioning an independent reasonable assurance audit mitigates the risk of the loan proceeds being used counter to the Bank's eligibility criteria; and (ii) including guidelines and operational procedures to strengthen early coordination between the executing agency and the Bank in the program [Operating Regulations](#) minimizes potential difficulties in recording and reporting the necessary information for justification of the use of the disbursed resources.
- 1.23 **Strategic alignment.** The project is consistent with the second Update to the Institutional Strategy 2020-2023 (document AB-3190-2) and aligned with the development challenge of social inclusion and equality, by benefitting a larger number of people, particularly those in vulnerable conditions, through an increase in ex ante financial coverage for natural disaster and public health emergencies. The project is also aligned with the crosscutting themes of: (i) climate change, as part of the climate change adaptation strategy and consistent with the Bank's Vision 2025 (document AB-3266). According to the [joint methodology of the multilateral development banks for tracking climate finance](#), an estimated 75% of the operation's resources are invested in adaptation to improve the financial management of natural disaster risks. These resources contribute to the IDB's climate financing goal (30% of the annual volume of approvals); (ii) gender equality, by promoting the gender perspective in the country's DRM through activities included in the [Integrated Natural Disaster Risk Management Plan \(INDRMP\)](#) and the gender action plan (paragraph 1.26); and (iii) institutional capacity and rule of law, by contributing to build the country's capacity to manage

¹⁸ Currently, the total amount of active contingent loans with coverage available is US\$2.0245 billion, and the total amount disbursed is US\$280.5 million.

- public resources, strengthening the management of contingent fiscal liabilities through an increase in ex ante contingent financing (paragraphs 1.7 and 1.8).
- 1.24 The operation is also aligned with the Corporate Results Framework 2020-2023 (document GN-2727-12), by contributing to the indicators of: (i) beneficiaries of enhanced disaster and climate change resilience, by increasing the population with enhanced resilience to natural disasters, epidemics, and pandemics when benefiting from the ex ante financial coverage provided by the loan; and (ii) countries with strengthened tax and expenditure policy and management, by building the country's capacity to manage public resources and contingent fiscal liabilities. The operation is also aligned with the Bank's Disaster Risk Management Policy Guidelines (document GN-2354-11) and consistent with the Climate Change Sector Framework Document (document GN-2835-8) and the Health and Nutrition Sector Framework Document (document GN-2735-12), by contributing to improve the country's financial management of climate, disaster, and public health risks.
- 1.25 Additionally, the operation is aligned with the IDB Group Country Strategy with Honduras 2019-2022 (document GN-2944), which identifies climate change adaptation and mitigation as crosscutting themes. The operation is included in the Update to Annex III of the 2021 Operational Program Report (document GN-3034-2). It is also aligned with the crosscutting area of the environment and climate change of the [Strategic Plan of the Government of Honduras 2018-2022](#). Lastly, the operation is part of the External Borrowing Policy and the Financial Management Strategy for Disaster Risk of the Republic of Honduras.
- 1.26 **Gender considerations.** The project will promote actions conducive to mainstreaming the gender dimension in the country's DRM by preparing a specific gender action plan and adding actions to the [Integrated Natural Disaster Risk Management Plan \(INDRMP\)](#) that sharpen its focus on gender equality and vulnerable populations, including indigenous populations and persons with disabilities. Such actions are included in the matrix of indicators for the first year of the [INDRMP](#) under the major focus areas of governance and disaster preparedness and management. Preparation of the gender action plan will be an additional output for the first year (paragraph 1.32), to be developed following the strategic guidelines for gender mainstreaming in contingent loans. Its implementation, as part of follow-up and monitoring of the [INDRMP](#) (paragraph 3.14), will include annual activities to address the main gender gaps in DRM during the period of coverage, strengthening the country's efforts in this sector. These activities will be integrated into the [INDRMP](#), as applicable (paragraph 2.8).
- B. Objectives, components, and cost**
- 1.27 The general objective of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on public finances. The specific objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures to aid the population affected by natural disaster and public health emergencies.

- 1.28 The operation provides additionality by helping to enhance the country's comprehensive disaster risk management through improvements in the [INDRMP](#)'s five major areas of strategic focus (paragraphs 2.7 and 2.8), sharpening the focus on gender equality and vulnerable groups, including indigenous populations and persons with disabilities.
- 1.29 **Sole component.** The proposed operation consists of a US\$400 million sole component that will structure stable, efficient, and rapidly accessible ex ante financial coverage to provide timely funding for the extraordinary expenditures likely to occur during severe natural disaster and public health emergencies.
- 1.30 **Subcomponent 1.1 Coverage under Modality I (US\$300 million).** Under CCF Modality I (parametric coverage), coverage is provided in the event of quick-onset, low-probability natural hazards with severe or large-scale impact through predefined and measurable parametric triggers. Hurricanes, earthquakes, and rainfall excess associated with cyclonic systems will be eligible (paragraph 2.3).
- 1.31 **Subcomponent 1.2 Coverage under Modality II (US\$100 million).** Under CCF Modality II (risks that cannot be parametrized), extraordinary public expenditures can be financed that may be incurred during public health emergencies. Covered events will be future epidemic and pandemics, excluding the current COVID-19 pandemic outbreak (paragraph 2.4).
- 1.32 A specific output of the operation is the preparation of an action plan to mainstream gender equality in the country's DRM, as part of the activities financed by regional technical-cooperation operation [ATN/OC-18888-RG](#),¹⁹ to strengthen the country's efforts in this sector (paragraph 1.26).
- 1.33 To assess the country's financial needs for dealing with severe or catastrophic natural disasters or public health events, the Bank looked the country's risk profile, the impact of historic events, and the increased frequency and severity of weather-related events due to climate change (paragraphs 1.1 to 1.3). The amount of the loan is the maximum allowed for this instrument (document GN-2999-4, Annex I, paragraphs 4.4 to 4.7).²⁰ For Modality I, the maximum coverage (US\$300 million) is justified by the historical impact of hurricanes (paragraph 1.2). For Modality II, the justification for the maximum possible coverage (US\$100 million) is the potential impact of future pandemics (paragraph 1.8).
- 1.34 **Beneficiaries.** The potential beneficiaries are, generally, the entire population of Honduras and, specifically, the affected populations receiving emergency assistance under the proposed coverage.

¹⁹ Regional technical-cooperation operation [ATN/OC-18888-RG](#), "Promoting Institutional Capacity-building for the Mainstreaming of the Gender Perspective in Climate and Disaster Risk Management Within the Framework of the CCF," seeks to build the institutional capacity of public institutions by mainstreaming the gender perspective in the region's DRM and has a specific component to finance the preparation and subsequent implementation of gender action plans. It was approved in October 2021 with financing from the Strategic Program for the Development of Institutions using US\$300,000 in Ordinary Capital resources.

²⁰ The coverage limit under Modality I may be up to US\$300 million or 2.0% of the borrowing member country's GDP, whichever is less. Under Modality II, it may be up to US\$100 million or 1.0% of GDP, whichever is less.

C. Key results indicators

- 1.35 In line with the operation's specific objective (paragraph 1.27), the expected outcome is improved financial management of natural disaster and public health risks through increased stable and efficient contingent financing to cover extraordinary public expenditures during emergencies caused by natural disasters or public health events.
- 1.36 To determine whether the country's financial risk management has improved, the following indicators will be monitored: (i) the amount of ex ante financial coverage available to the country for emergency response to natural disaster or public health emergencies; (ii) the beneficiaries of ex ante financial coverage available for natural disaster emergencies; (iii) the beneficiaries of ex ante financial coverage available for public health emergencies; (iv) the differential between the financial cost of the IDB loan and the cost of Honduras' long-term external sovereign debt; (v) the financial savings ratio given the occurrence of an eligible event: cost of funds disbursed by the IDB relative to the cost of issuing sovereign debt, expressed in terms of net present value (NPV); and (vi) the speed of access to the funds following the occurrence of an eligible event: number of days between the eligibility verification request and the availability of the funds.
- 1.37 **Economic analysis.** The [economic analysis](#) (optional link 1) uses a cost-effectiveness methodology to evaluate a scenario where full financial coverage provided by the US\$400 million contingent loan would be used following the occurrence of a catastrophic natural disaster and public health event during the coverage period.²¹ The NPV of the financing cost of the IDB loan was compared to the cost of issuing long-term sovereign bonds. The results show that the contingent loan granted by the Bank is 40.2% of the cost of issuing debt, which makes it a much more efficient option in terms of both the financing cost and how quickly the resources can be made available.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

- 2.1 The operation will consist of an investment loan from the Bank, to be issued under the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (CCF) (document GN-2999-4) for up to US\$400 million. Up to US\$300 million of that amount will be used under Modality I (parametric coverage) for natural disasters, and up to US\$100 million will be used under Modality II for public health events. The borrower, acting through the Ministry of Finance (SEFIN), will serve as the executing agency. All disbursements will be made from the Bank's regular and concessional Ordinary Capital resources, blended according to the concessionality established for the country at the time the program is approved (currently 65% regular and 35% in concessional). The funds will come from either the regular lending program or the available undisbursed balances of investment

²¹ Two other scenarios were evaluated, and the results indicate that the contingent loan would still be the most efficient option for the country. See [economic analysis](#) (optional link 1).

- loans already approved and identified in the [automatic redirection list \(ARL\)](#),²² or from a combination of these two options.
- 2.2 Contingent loans made under the CCF contain specific financial terms and conditions (described in the project summary) to effectively support the country at the critical time of an emergency caused by severe events, when public finances are impaired. The specific terms and conditions include: (i) the amortization periods, weighted average life (WAL), and grace periods are counted from the date of each disbursement of the financing; (ii) the Bank will only charge a one-time fee of 50 basis points (reviewed periodically) on the date of each disbursement, applicable solely to the amount disbursed against resources from the regular lending program (i.e., not resources from the [ARL](#)); and (iii) the resource availability period (disbursement period) is five years, which can be renewed for up to an additional five years at the Bank's discretion and following a request from the borrower, as long as the [Integrated Natural Disaster Risk Management Plan \(INDRMP\)](#) is still in place and progressing to the Bank's satisfaction and/or the country is up to date with its progress reporting to the World Health Organization (WHO) on compliance with International Health Regulations (IHR). In the event of renewal, the amortization periods, WALs, and grace periods will be calculated as of the effective date of renewal.
- 2.3 **Eligible events under Modality I.** The loan will provide coverage for quick-onset, low-probability events with a severe impact under Modality I of the CCF. Specifically, eligible events will be hurricanes, earthquakes, and rainfall excess associated with cyclonic systems, according to the intensity and affected population parameters established contractually between the country and the Bank and defined in the coverage terms and conditions under Modality I (Annex I of the program [Operating Regulations](#)). That annex describes specific aspects of the operation of the parametric triggers for determining the eligibility of events, as well as the methodology for calculating the maximum coverage amount according to the intensity and percentage of the country's total population affected by each type of eligible event.
- 2.4 **Eligible events under Modality II.** The loan will provide coverage under Modality II of the CCF for future pandemics and epidemics that result in declaration of a national emergency. Annex II of the program [Operating Regulations](#) describes specific aspects of the legal framework, scope, and procedure for declaring national public health emergencies. The loan shall not be used for the current COVID-19 pandemic outbreak because it does not qualify as an eligible event under the scope of CCF Modality II (document GN-2999-4, paragraph 3.16). Nonetheless, future pandemics or epidemics may be eligible, including those caused by the novel coronavirus SARS-CoV-2.

²² The [ARL](#) includes the Bank's investment loans in effect that have uncommitted balances available for disbursements. The remaining balances can be automatically redirected following an event (document GN-2999-4, Annex I, paragraph 4.12). The [ARL](#) will be updated periodically in consultation with the borrower. If the resources disbursed for an eligible event come from [ARL](#) balances in whole or part, the Bank: (i) will update the project management systems to reflect the corresponding changes in the selected loans; and (ii) will maintain the same proportion of regular to concessional Ordinary Capital as when the original loans were approved.

- 2.5 Disbursements of the financing will be contingent on the availability of sufficient resources available from the [ARL](#) or the Bank's regular lending program for Honduras, as applicable, when the disbursement is requested. If sufficient resources are not available at the time of the disbursement request, the Bank may disburse up to the maximum amount of available resources. In the event that no funds are available, the Bank will not be obligated to make any disbursements for as long as and to the extent that no resources are available. Once this situation has ended as determined by the Bank, it will notify the borrower.
- 2.6 **Disbursement limits per event.** The maximum amount that may be disbursed for each eligible event is subject to the lower of the following limits: (i) the available undisbursed balance of coverage; and (ii) the limit for each disbursement method established in the program [Operating Regulations](#). For Modality I, the limit will also be subject to the maximum amount resulting from application of the coverage model to the event declared eligible.
- 2.7 **Integrated Natural Disaster Risk Management Plan (INDRMP).** As an eligibility condition, the CCF establishes that all of the Bank's borrowing member countries may receive financing through natural disaster coverage, provided they have an [INDRMP](#) in place that is satisfactory to the Bank. The [INDRMP](#) seeks to promote the effective development of the national DRM policy. To that end, the project team performed a diagnostic assessment of disaster risk management in Honduras (paragraphs 1.9 to 1.13) and agreed with the government on general targets for 2020-2025 and annual [INDRMP](#) indicators based on the State Policy for Integrated Risk Management in Honduras (PEGIRH). The [INDRMP](#) documented in Annex III of the program [Operating Regulations](#) is satisfactory to the Bank. Based on all the above, it is anticipated that the country meets this eligibility requirement.
- 2.8 To maintain the loan's natural disaster coverage, the country must ensure that [INDRMP](#) continues to be implemented to the Bank's satisfaction by making progress toward the targets set in it. To monitor progress toward meeting those targets, annual progress indicators are defined for each of the plan's major areas of strategic focus. The progress monitoring exercises will take place annually. Annual indicators for the first monitoring exercise were agreed upon and are specified in Annex III, Table I, of the program [Operating Regulations](#). Satisfactory execution of the plan will be determined by verifying that the country has made significant progress on all agreed progress indicators. For subsequent annual verification periods, new progress indicators will be defined, in coordination with the government, including those related to the gender action plan.
- 2.9 **International Health Regulations (IHR).** The CCF states that, to receive funding through public health coverage, countries must be up to date with their reporting of progress against IHR compliance to the WHO.²³ As noted in paragraph 1.15, Honduras satisfies this requirement for access to public health coverage under the CCF. During the contingent loan coverage period, the Bank will monitor the

²³ The report on compliance with IHR recommendations is updated annually through the [State Party Annual Reporting Platform \(SPAR\)](#). The annual update of this report is mandatory for the 196 member countries and must be submitted to the WHO by October of each year. [Guidance Document for the State Party Self-Assessment Annual Reporting Tool](#).

country's annual compliance with reporting to the WHO on its capacity to cope with public health events under the IHR.

- 2.10 **Complementary risk retention mechanisms.** The Disaster Risk Financial Strategy (DRFS) (paragraph 1.13) describes a series of the country's risk retention instruments that were used to respond to the COVID-19 health emergency. Of these, the risk retention mechanisms that would be available for use in future emergencies are: (i) the reallocation of external resources through credits with a contingent component for emergency response. Honduras has a series of active investment loans with the World Bank that include a contingent component for emergency response and allow the country to reallocate resources from these operations to finance interventions in response to an eligible event, triggered at SEFIN's request; and (ii) the National Emergency Preparedness and Response Fund (FONAPRE) (SINAGER Law of 2009, Article 21), intended as a first line of fiscal defense against disasters. Although implementation of the FONAPRE has not gone as anticipated, given the lack of accumulated resources due to budgetary constraints,²⁴ this is a budgetary item through which resources could be channeled from various sources, when available, to deal with emergencies, in line with the implementation of the DRFS to be supported by the Bank (See Annex III of the program [Operating Regulations](#)).

B. Environmental and social safeguard risks

- 2.11 As stipulated in Directive B.13 of the Environment and Safeguards Compliance Policy (document GN-2208-20, Operational Policy OP-703), this operation does not require classification. As any resources disbursed under this loan may only be used to finance extraordinary public expenditures incurred during an emergency, and because SEFIN, as executing agency, guarantees that the use of funds will comply with the country's environmental and social legislation, no negative environmental or social impacts are anticipated. Moreover, the loan contract includes a list of the types of expenditures that cannot be financed with the loan proceeds (negative list, see Annex VI of the program [Operating Regulations](#)). Examples of expenditures on the negative list are those associated with permanent infrastructure reconstruction.

C. Fiduciary considerations

- 2.12 The operation will be consistent with the specific fiduciary control requirements and procedures of the CCF (document GN-2999-4) and the provisions of Annex III, Fiduciary Agreements and Requirements, supplemented by the Financial Management Guidelines for IDB-financed Projects (document OP-273-12). Consistent with the Framework for Risk Management in Sovereign Guaranteed Projects Financed by the IDB (document OP-1519-4), no fiduciary risks have been identified for this operation.

D. Other key risks and issues

- 2.13 **Internal process risks.** There is a medium-high risk that insufficient information on expenditures incurred and shortcomings in the required documentation could make it impossible to verify eligible expenditures. As a result, expenditures could

²⁴ Implementation will be monitored for the Disaster Risk Financial Management Strategy of Honduras, approval of which is a first year indicator of the [INDRMP](#) (Annex III of the program [Operating Regulations](#)).

- be rejected because they do not meet the eligibility criteria, thereby delaying the disbursement of funds to respond to the emergency. To mitigate this risk, the Bank will require use of the loan proceeds to be verified by an independent firm of auditors acceptable to the Bank (paragraph 3.11).
- 2.14 **Institutional risk.** There is a medium-high risk that, owing to delays in the relevant interagency communication and coordination, resources disbursed for an eligible event will not be used within the stipulated disbursement period for the CCF (paragraph 3.10), thus making the emergency response less effective. As mitigation measures, the Bank will: (i) provide technical support to SEFIN, including training workshops, to strengthen its capacity to execute the loan, as part of the project supervision and implementation process; and (ii) promote institutional arrangements and coordination between SEFIN and the institutions responsible for responding to natural disaster and public health emergencies, through the measures described in the program [Operating Regulations](#) (paragraphs 1.16 to 1.18) (paragraph 3.4).
- 2.15 **Sustainability.** The country is expected to continue improving disaster risk management (DRM) through implementation of the State Policy for Integrated Risk Management in Honduras (PEGIRH) (paragraph 1.9) and the DRFS (paragraph 1.13), including the promotion of risk retention and transfer mechanisms, like the proposed loan, to finance extraordinary public expenditures for timely response to future emergencies. Regarding public health risks, the country is expected to continue its commitment to progress in the context of the IHR. In addition, activities to better enable the country's health sector to prepare for and respond to the COVID-19 pandemic, as part of the Bank's support for the country, will contribute to program sustainability (paragraphs 1.15 to 1.20).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Republic of Honduras. The executing agency will be the borrower, acting through the Ministry of Finance (SEFIN). The contingent loan proceeds will be disbursed to SEFIN. Under the executing agency's coordination, the proceeds of the contingent loan will be used by the public sector institutions responsible for budget execution during natural disaster or public health emergencies. Among other activities, the executing agency will be responsible for: (i) overall project coordination; (ii) processing and handling of disbursement requests with the Bank; (iii) coordinating the tracking of the requirements for monitoring, evaluation, and justification of use of the loan proceeds; and (iv) ensuring that the project's objectives and terms and conditions are met.
- 3.2 **Interagency coordination for natural disaster emergencies.** The 2020-2021 National Plan for Responding to Emergencies, Disasters, or Public Calamity establishes the necessary coordination mechanisms to effectively manage emergencies or disasters. At the national level, the SINAGER board of directors is responsible for emergency response management, whereas the Standing Commission on Emergencies (COPECO) coordinates higher-level decision

actions, through the National Emergency Operations Center and the regional²⁵ and departmental offices.

- 3.3 **Interagency coordination for public health emergencies.** For public health events, warnings are issued through SESAL and COPECO, activating the SESAL Operations and Emergency Committee (COE-SESAL) and the Interagency Emergencies and Disaster Committee. Operational teams are created with responsibility for: (i) health services delivery; (ii) epidemiological surveillance (iii) mental health; (iv) temporary shelters; (v) damage assessment; (vi) logistical and administrative support; (vii) risk communication; (viii) laboratory and blood bank; (ix) rapid response teams; and (x) emergency medical technicians. Responsibilities and their integration in the coordination and functions of teams are described in the [Multithreat Response Plan for Health Emergencies and Health Sector Disasters in Honduras 2018-2022](#).
- 3.4 **Coordination mechanism for use of the loan proceeds.** To ensure timely execution of loan proceeds channeled to emergencies, an institutional coordination and execution mechanism, led by SEFIN, has been set up to facilitate the timely flow of funds to the public sector institutions tasked with resource execution and adequate traceability. This mechanism is detailed in the program [Operating Regulations](#) (paragraphs 1.16 to 1.18), and the Bank will monitor its implementation by SEFIN immediately following a contingent loan disbursement. The mechanism encompasses the following processes: (i) prioritization and planning of the response; (ii) budgetary allocations; (iii) execution and monitoring; and (iv) accountability and closing.
- 3.5 **Special contractual condition of general eligibility to request disbursements.** **The special contractual condition of general eligibility to request disbursements will be the approval and entry into force of the program [Operating Regulations](#) on the terms previously agreed upon with the Bank.** The program [Operating Regulations](#) will include: (i) the applicable operational processes and provisions, including those for supervision and administration of resources; (ii) the terms and conditions of coverage for each modality; (iii) the interagency coordination mechanisms; (iv) the [Integrated Natural Disaster Risk Management Plan \(INDRMP\)](#); (v) the [automatic redirection list \(ARL\)](#); (vi) terms of reference for contracting the audit firm for independent verification of the use of the disbursed resources given the occurrence of an eligible event; (vii) templates for the request for advances and reimbursement; (viii) example of an indicative list of potential eligible expenditures for future pandemics; and (ix) the list of excluded expenditures (negative list).
- 3.6 **Special contractual conditions precedent to the first disbursement for each eligible event.** **The special contractual conditions precedent to the first disbursement for each eligible event will be: (a) Disbursements under Modality I (natural disasters): (i) the Bank has verified the occurrence of an eligible event as defined in the program [Operating Regulations](#); and (ii) the [INDRMP](#), previously agreed upon with the Bank, is progressing to the Bank's satisfaction (paragraph 2.7); and (b) Disbursements under Modality II (public health events): (i) the Bank has verified the declaration of a national public**

²⁵ COPECO has eight regional offices covering the entire country.

- health emergency due to an eligible public health event as defined in the program [Operating Regulations](#); (ii) the borrower has submitted evidence that it is up to date with its progress reporting to the World Health Organization (WHO) on compliance with International Health Regulations (IHR); (iii) the borrower has submitted evidence to the Bank's satisfaction that it has a national preparedness and response plan for the specific event, in line with WHO/PAHO recommendations, to address the event for which it has declared a national public health emergency; and (iv) the Bank has verified the borrower's compliance with the agreed complementary risk retention financing measures and conditions.
- 3.7 In addition to the aforementioned contractual conditions, the borrower will have submitted, within 90 calendar days after the occurrence of an eligible event, one or more disbursement requests specifying the amount(s) of such disbursement(s), whether these will be drawn from the regular lending program, undisbursed balances from the [ARL](#), or a combination of these two sources. In the case of loans from the [ARL](#), the request will identify the loans in question and the respective amount to be utilized. These contractual conditions were established as standard conditions for the execution of contingent loans in the policy document for the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (CCF) (document GN-2999-4).
- 3.8 Each disbursement of the loan will be made in accordance with the financial terms and conditions established in the project summary, regardless of whether the resources are drawn in whole or part from the regular loan program, loans included in the [ARL](#), or a combination of the two sources.
- 3.9 **Eligible expenditures.** The loan proceeds may be used to finance extraordinary public expenditures that occur during emergencies resulting from eligible events that satisfy the following requirements according to document GN-2999-4 (paragraph 4.20(c)): (i) they are not explicitly excluded in the loan contract (negative list); (ii) they are legal under the laws of the Republic of Honduras; (iii) they are directly related to the natural disaster or public health emergency for which the financing has been provided; (iv) they have verifiable, clearly documented and recorded procurements and payments; and (v) they have been adequately dimensioned and priced. Examples of types of expenditures that might be eligible are: (i) emergency medical equipment; (ii) vaccines and medications (iii) foodstuffs for the affected population; (iv) temporary shelters; and (v) temporary rehabilitation of infrastructure and reconnection of utilities. The program [Operating Regulations](#) include an indicative list of potential eligible expenditures and a list of excluded expenditures.
- 3.10 The Bank will recognize up to 100% of the cost of eligible expenditures effectively incurred and paid by the borrower from the day on which the eligible event began and for the immediately following 180 calendar days, subject to extension for an additional 90 days at the borrower's request and at the Bank's discretion (document GN-2999-4, paragraph 4.20(f)). Procurement and contracting will be governed by the rules established in the CCF policy document (document GN-2999-4). The borrower will utilize its national legislation on procurement of goods and contracting or works or services applicable to

extraordinary fiscal expenditures in natural disaster or public health emergencies (Annex III).

- 3.11 **Reasonable assurance audits.** The Bank will require independent verification of expenditures financed by the loan, to assess compliance with the eligibility criteria established in the loan contract and the program [Operating Regulations](#). This independent verification will be performed by a firm of reasonable assurance auditors acceptable to the Bank. SEFIN will be responsible for engaging the auditors and will initially bear the costs (document GN-2999-4, paragraph 4.20(b)). This contracting may be done using the Bank's policy for the contracting of consulting firms, and costs are eligible to be financed from the loan proceeds.
- 3.12 **Justification of the use of resources.** The borrower, acting through SEFIN, will produce a Declaration of Adequate Use of the contingent loan proceeds to justify the use of the disbursed resources. This report will be submitted to the Bank within 365 calendar days after the onset of the eligible event for which the Bank has disbursed the resources in question. It will also be accompanied by the final report on the reasonable assurance audit commissioned by the borrower for the concurrent expenditure review. Once the declaration of adequate use has been submitted, the Bank will determine the total amount of expenditures eligible for financing. If there are unjustified or ineligible expenditures, the Bank may require the borrower to reimburse the unjustified amount.
- 3.13 If necessary, as established in document GN-2999-4, within a period not to exceed two years after each disbursement, the Bank, at its sole discretion and without cost to the borrower, may conduct subsequent audits to verify the appropriateness of the expenditures declared as eligible, the findings of which may support a request for reimbursement of amounts deemed ineligible for financing.

B. Summary of arrangement for monitoring results

- 3.14 During the coverage period of the contingent loan, the Bank will periodically monitor progress of the [INDRMP](#) and the gender action plan, as well as perform annual evaluations of them ([monitoring and evaluation plan](#)). If, as a result of these evaluations, the Bank finds that the [INDRMP](#) is not progressing satisfactorily, based on the indicators established for such purpose, the borrower will be notified of the specific actions it must take within 90 days after the issue date of the notification, in order to maintain eligibility for natural disaster coverage, pursuant to document GN-2999-4, paragraph 4.25.
- 3.15 **Evaluation.** As indicated in the [monitoring and evaluation plan](#), the loan is evaluated following the occurrence of an eligible event that results in a disbursement, via a project completion report. The evaluation methodologies consist of a reflexive evaluation and an ex post cost-effectiveness analysis. The first evaluation would focus on the efficiency of the loan over the entire coverage period and on whether the country accessed the loan resources rapidly enough. The second evaluation would focus on comparing the cost in net present value of the disbursed resources with the cost of other sources of financing, which would allow the financial savings ratio to be estimated for the country. Additionally, a qualitative evaluation has been included to analyze the contribution made by the [INDRMP](#) and the gender action plan to enhancing the country's disaster risk management.

| Development Effectiveness Matrix | | |
|--|---|--|
| Summary | | HO-0008 |
| <i>I. Corporate and Country Priorities</i> | | |
| Section 1. IDB Group Strategic Priorities and CRF Indicators | | |
| Development Challenges & Cross-cutting Issues | -Social Inclusion and Equality -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law | |
| CRF Level 2 Indicators: IDB Group Contributions to Development Results | Beneficiaries of enhanced disaster and climate change resilience (#) Countries with strengthened tax and expenditure policy and management (#) | |
| 2. Country Development Objectives | | |
| Country Strategy Results Matrix | GN-2944 | Cross-cutting issue of climate change adaptation and mitigation |
| Country Program Results Matrix | GN-3034-2 | The intervention is included in the 2021 Operational Program |
| Relevance of this project to country development challenges (If not aligned to country strategy or country program) | | |
| <i>II. Development Outcomes - Evaluability</i> | | Evaluable |
| 3. Evidence-based Assessment & Solution | | 7.7 |
| 3.1 Program Diagnosis | | 2.5 |
| 3.2 Proposed Interventions or Solutions | | 1.6 |
| 3.3 Results Matrix Quality | | 3.6 |
| 4. Ex ante Economic Analysis | | 10.0 |
| 4.1 Program has an ERR/NPV, or key outcomes identified for CEA | | 2.0 |
| 4.2 Identified and Quantified Benefits and Costs | | 3.0 |
| 4.3 Reasonable Assumptions | | 2.0 |
| 4.4 Sensitivity Analysis | | 2.0 |
| 4.5 Consistency with results matrix | | 1.0 |
| 5. Monitoring and Evaluation | | 8.4 |
| 5.1 Monitoring Mechanisms | | 2.8 |
| 5.2 Evaluation Plan | | 5.5 |
| <i>III. Risks & Mitigation Monitoring Matrix</i> | | |
| Overall risks rate = magnitude of risks*likelihood | | Low |
| Environmental & social risk classification | | B.13 |
| <i>IV. IDB's Role - Additionality</i> | | |
| The project relies on the use of country systems | | |
| Fiduciary (VPC/FMP Criteria) | Yes | Financial Management: Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System. |
| Non-Fiduciary | | |
| The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions: | | |
| Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project | Yes | Through the ATN /OC-18888-RG, the Bank will support COPECO to strengthen the incorporation of the gender approach in DRM within the framework of the PGIRDN and the contingent loan. |

Evaluability Note: The project is a Contingent Loan for Natural Disaster Emergencies and Public Health in the Republic of Honduras. The general objective of the project is to help mitigate the impact that a natural disaster or a severe or catastrophic public health event could have on the country's public finances. The specific objective is to improve the financial management of the risks of natural disasters and public health by increasing stable, cost-efficient and rapidly accessible contingent financing to cover extraordinary public expenditures directed to the care of the population affected by emergencies caused by natural disasters and public health events.

The documentation is well structured, with a good diagnosis of the country's vulnerability to natural disasters and climate change, as well as public health events. The negative effects that these events have on the country, its population, the economy, and fiscal resources are properly documented. The project will provide coverage under Modality I of the CCF for hurricanes, earthquakes and excess rainfall associated with cyclonic systems. Under Modality II, the project will provide coverage for future epidemics and pandemics that result in the national declaration of emergency. The proposed intervention is clearly linked to the problems and factors identified. The results matrix reflects the general and specific objective of the program and captures a good vertical logic. The output, outcome and impact indicators have baseline values, targets, and sources of information, and the vast majority are SMART.

The project has an ex ante cost-effectiveness analysis and a monitoring and evaluation plan in accordance with the DEM guidelines and the characteristics of contingent loans for emergencies due to natural disasters and public health. The economic analysis shows that the operation is efficient with a Net Present Value of the loan granted by the Bank that is 40.2% of the cost of the most probable alternative, which makes it a more cost-efficient option. The monitoring and evaluation plan proposes a reflexive evaluation and an ex post cost-effectiveness analysis.

The four risks identified in the risk matrix seem reasonable, two are classified as Low and two as Medium-High. Medium-High level risks include mitigation actions, responsible parties, and dates or triggers.

RESULTS MATRIX

| | |
|---------------------------|---|
| Project objective: | <p>The specific objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures to aid the population affected by natural disaster and public health emergencies.</p> <p>The general objective of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on public finances.</p> |
|---------------------------|---|

GENERAL DEVELOPMENT OBJECTIVE

| Indicators | Unit of measure | Baseline value | Baseline year | Expected year achieved | Target | Means of verification | Comments |
|--|-----------------|----------------|---------------|------------------------|------------------|-----------------------------|--|
| General development objective: To buffer the impact of a natural disaster or severe public health event on public finances in Honduras. | | | | | | | |
| Indicator 1: Ex ante financial coverage relative to maximum probable expenditure ¹ during emergencies caused by catastrophic natural disasters covered by the project. | % | 0 ² | 2021 | 5 | 6.8 ³ | Ministry of Finance (SEFIN) | The indicator measures the ex ante financial coverage of Honduras as a percentage of the maximum probable expenditure incurred addressing emergencies caused by catastrophic natural disasters. See monitoring and evaluation plan (MEP) . |
| Indicator 2: Ex ante financial coverage relative to the maximum probable expenditure ⁴ during nationwide public health emergencies covered by the project. | % | 0 ² | 2021 | 5 | 32 ⁵ | SEFIN | The indicator measures the country's ex ante financial coverage as a percentage of the maximum probable expenditure incurred in addressing nationwide public health emergencies. See MEP . |

¹ Calculation based on a catastrophic natural disaster, recurring once in every 100 years, causing damage equivalent to 14% of GDP, according to estimates reported in [Indicadores de Riesgo de Desastre y de Gestión de Riesgos: Programa para América Latina y el Caribe: Honduras](#), IDB 2012.

² Honduras has no resources available in the National Emergency Preparedness and Response Fund (FONAPRE). It has also used the total amount of the CAT-DDO loan from the World Bank to address the COVID-19 pandemic, so this coverage is not considered for the baseline.

³ This value assumes that no severe or catastrophic event occurs during the loan coverage period, adjusted for inflation and exchange rate variations.

⁴ Based on SEFIN estimates of budgetary allocations, contracted financing, and resources redirected to the health sector for the COVID-19 response.

⁵ This value assumes that no public health event occurs during the loan coverage period, adjusted for inflation and exchange rate variations.

SPECIFIC DEVELOPMENT OBJECTIVES

| Indicators | Unit of measure | Baseline value | Baseline year | Year 1 | Year 2 | Year 3 | Year 4 | Year | End of project | Means of verification | Comments |
|---|---------------------|----------------|---------------|--------|--------|--------|--------|-------|----------------|-----------------------|---|
| Specific development objective: To improve the financial management of natural disaster and public health risks by increasing stable and efficient contingent financing to cover extraordinary public expenditures to aid the population affected by natural disaster and public health emergencies. | | | | | | | | | | | |
| Indicator 1. Availability and stability: Increase in the country's ex ante financial coverage for extraordinary expenditures during natural disaster and public health emergencies. | | | | | | | | | | | |
| Amount of ex ante financial coverage available to the country for emergency response to natural disaster or public health emergencies. | US\$ million | 0 | 2021 | 400 | 400 | 400 | 400 | 400 | 400 | SEFIN | This indicator quantifies the country's total ex ante financial coverage for financing extraordinary public expenditures associated with responding to natural disaster or public health emergencies. See MEP . |
| Indicators 2 and 3. Vulnerable people with enhanced resilience to natural disasters, epidemics, and pandemics when benefiting from the ex ante financial coverage provided by the contingent loan. | | | | | | | | | | | |
| Beneficiaries ⁶ of ex ante financial coverage available for natural disaster emergencies. | Thousands of people | 0 | 2021 | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | SEFIN | This indicator measures the maximum number of people who could benefit from the country's ex ante financial coverage to address natural disaster emergencies. See MEP . |
| Beneficiaries ⁷ of ex ante financial coverage available for public health emergencies. | Thousands of people | 0 | 2021 | 22.1 | 22.1 | 22.1 | 22.1 | 22.1 | 22.1 | SEFIN | The maximum number of beneficiaries of the country's ex ante financial coverage to address public health emergencies. See MEP . |

⁶ This estimate assumes average financial coverage per person of US\$240, which is equivalent to the country's monthly per capita income, and available ex ante financial coverage of US\$300 million in CCF coverage under Modality I.

⁷ This estimate assumes average financial coverage per person of US\$4,513 (average treatment cost per COVID-19 patient in the country), and available ex ante financial coverage of US\$100 million in CCF coverage under Modality II.

| Indicators | Unit of measure | Baseline value | Baseline year | Year 1 | Year 2 | Year 3 | Year 4 | Year | End of project | Means of verification | Comments |
|--|-----------------|-------------------|---------------|------------|------------|------------|------------|------------|---------------------------|---|--|
| Indicators 4 and 5. Financial cost: Contingent financial coverage is cost-efficient. | | | | | | | | | | | |
| Differential between the financial cost of the IDB loan and the cost of Honduras' commercial long-term external sovereign debt. | Basis points | 256 ⁸ | 2021 | Cost diff. | Cost diff. | Cost diff. | Cost diff. | Cost diff. | More than or equal to 100 | IDB Finance Department (FIN) Refinitiv Eikon SEFIN | This indicator compares the financial cost of the IDB loan and the cost of Honduras' commercial long-term external sovereign debt. See MEP . |
| Financial savings ratio, if an eligible event occurs: cost of funds disbursed by the IDB relative to the cost of issuing sovereign debt, expressed in net present value terms. | % | 40.2 ⁹ | 2021 | 20 | 20 | 20 | 20 | 20 | 20 | FIN Refinitiv Eikon SEFIN | This indicator will measure the country's financial savings rate when the proceeds of the IDB loan are disbursed, following the occurrence of an eligible event. It is calculated using a cost-effectiveness analysis methodology. See MEP . |
| Indicator 6. Speed of access: Contingent financial coverage is efficient in terms of how rapidly the country can access the loan proceeds to cover potential emergency expenditures. | | | | | | | | | | | |
| Speed of access to resources, if an eligible event occurs: number of days between the eligibility verification request and the availability of funds. | Days | 90 ¹⁰ | 2021 | 30 | 30 | 30 | 30 | 30 | 30 | FIN SEFIN | The indicator will measure the number of days between the date when the country sends an eligibility verification request and the date when the Bank notifies the country that the loan proceeds are available. See MEP . |

⁸ See [project economic analysis](#) (optional link 1).

⁹ A cost-effectiveness analysis methodology was used comparing the NPV of the cost of financing the IDB loan to the cost of issuing bonds. See [optional link 1](#).

¹⁰ Average time taken to authorize and process a sovereign bond issue on the international market for a country that performs this type of operation intermittently. The baseline is subject to revision based on future issues.

OUTPUTS

| Indicators | Unit of measure | Baseline value | Baseline year | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | End of project | Means of verification |
|---|-----------------|----------------|---------------|--------|--------|--------|--------|--------|----------------|-----------------------|
| Sole component: Contingent loan from the Bank to cover extraordinary public expenditures during natural disaster or public health emergencies. | | | | | | | | | | |
| Subcomponent 1.1: Coverage under Modality I. | US\$ million | 0 | 2021 | 300 | 300 | 300 | 300 | 300 | 300 | SEFIN |
| Subcomponent 1.2: Coverage under Modality II. | US\$ million | 0 | 2021 | 100 | 100 | 100 | 100 | 100 | 100 | SEFIN |
| Gender action plan designed and monitored, to mainstream gender equality in the country's disaster risk management, as part of the contingent loan. ¹¹ | Number | 0 | 2021 | 1 | 0 | 0 | 0 | 0 | 1 | COPECO |

¹¹ Regional technical-cooperation operation [ATN/OC-18888-RG](#), "Promoting Institutional Capacity-building for the Mainstreaming of the Gender Perspective in Climate and Disaster Risk Management Within the Framework of the CCF," seeks to build the institutional capacity of public institutions by mainstreaming the gender perspective in the region's DRM and has a specific component to finance the preparation and subsequent implementation of gender action plans. It was approved in October 2021 with financing from the Strategic Program for the Development of Institutions using US\$300,000 in Ordinary Capital resources.

Country: Honduras **Division:** IFD/CMF **Operation number:** HO-O0008 **Year:** 2021

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Ministry of Finance (SEFIN)

Operation Name: Contingent Loan for Natural Disaster and Public Health Emergencies

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country system in the operation: (Any subsequently approved system or subsystem may be applicable to the operation, according to the terms of the Bank's validation).

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| <input checked="" type="checkbox"/> Budget | <input checked="" type="checkbox"/> Reports | <input checked="" type="checkbox"/> Information system | <input type="checkbox"/> National competitive bidding (NCB) |
| <input checked="" type="checkbox"/> Treasury | <input type="checkbox"/> Internal audit | <input type="checkbox"/> Shopping | <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Accounting | <input checked="" type="checkbox"/> External control | <input type="checkbox"/> Individual consultants | |

2. Fiduciary execution mechanism:

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| <input checked="" type="checkbox"/> | Specific features of fiduciary execution | <p>The borrower, acting through SEFIN, will be the executing agency. The operation will consist of an investment loan from the Bank under the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (CCF) (document GN-2999-4), for up to US\$400 million, with US\$300 million under Modality I and US\$100 million under Modality II.</p> <p>Given the specific nature of this type of operation, when the events occur, and depending on their type, the borrower will designate the public institutions tasked with responding to the emergency and conducting the respective procurements using the funds from this operation (implementing entities).</p> |
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3. Fiduciary capacity:

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| Fiduciary capacity of the executing agency | <p>The Ministry of Finance (SEFIN) is the national central government agency responsible for administration of the public sector budgetary process, application and administration of tax-related laws, tax collection and enforcement; administration of the public treasury, public credit and government accounting; formulation and management of internal and external public sector borrowing policy and the government's fiscal policy; and the government's dealings with national and international financial institutions.</p> <p>SEFIN will be responsible for: (i) ensuring that the project's objectives and terms and conditions are met; (ii) processing and handling disbursement requests with the Bank; (iii) managing specific budgetary allocations and line items for this project; (iv) monitoring the fiduciary,</p> |
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| | <p>procurement, monitoring, and evaluation arrangements through the implementing entities, to safeguard timely and proper execution of resources; (v) providing justification, with reports and documentation from the implementing entities, of the use of the loan proceeds in accordance with the loan contract and the program Operating Regulations; (vi) ensuring that planned and pending payments are made on a timely basis as part of loan contract execution; (vii) commissioning the reasonable assurance audit and coordinating its execution with the implementing entities; (viii) maintaining the necessary documents within its jurisdiction, so that the Bank, at its sole discretion, can verify through additional independent external audits the appropriateness of the expenditures declared as eligible; and (ix) participating in the closing process, including preparation of the project completion report.</p> <p>SEFIN is considered to have the necessary and sufficient characteristics to ensure effective and transparent financial execution of the resources of this operation.</p> |
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4. Fiduciary risks and response to risk: Consistent with the Framework for Risk Management in Sovereign Guaranteed Projects Financed by the IDB (document OP-1519-4), no fiduciary risks have been identified for this operation.
5. Policies and guidelines applicable to the operation: The provisions of document GN-2999-4, supplemented by the Financial Management Guidelines for IDB-financed Projects (document OP-273-12), will apply to this operation.
6. Exceptions to policies and guidelines: In operations of this type, government agencies assigned to manage the emergency utilize national laws and regulations for their contracting, in accordance with document GN-2999-4.

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

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| <p>Special contractual condition for execution: Contracting of an audit firm, as established in the program Operating Regulations, from the list of eligible firms, a process for which IDB policies may be applied.</p> |
| <p>Exchange rate: For the applicable exchange rate for justification of expenditures made in the local currency of the borrower's country, Article 4.10(b)(i) of the General Conditions of the investment loan contracts will apply.</p> |
| <p>Type of audit: A reasonable assurance audit will be performed. The borrower, acting through the executing agency, will deliver a final reasonable assurance report, issued by the external audit firm, to the Bank within 365 calendar days after the declaration of the eligible event.</p> |

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

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| ☒ | Use of country systems | The procurement system of Honduras is based on the provisions of Decree 74-2001, the “Government Contracting Law,” and its implementing regulations under Executive Order 55-2002, as well as Decree 36-2013, the “Law on Transparent and Efficient Purchases Through Electronic Means.” The agencies assigned by the government to address the emergency will apply these laws and regulations or those in effect at the time of the event. |
| ☒ | Records and files | The borrower and the implementing entities will be responsible for keeping fiduciary records of the project (documents related to procurement and financial management), independently according to their jurisdiction, using digital and physical files, and for having procedures and instructions for their proper maintenance, to ensure that all expenditures are adequately supported and available for review upon request by the Bank or the auditors for a period of two years from the date of each disbursement. |

7. Main procurements: As this is a contingent loan, the contracting processes to be financed will be determined after the event triggering the need to use the funds to address its consequences has occurred. It is therefore impossible identify the contracting processes involved at the time of the operation’s approval.

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

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| ☒ | Programming and budget | SEFIN, as executing agency, is responsible for the necessary budgetary and financial quota allocations and processing in coordination with the different relevant institutions. The public financial management system in Honduras is the Integrated Financial Administration System (SIAFI), comprised of the public budget, government accounting, national treasury, public credit, and procurement subsystems. The apex agency is SEFIN, through its respective divisions. SEFIN will assign an identifier code to the project in the SIAFI system, and the occurrence of an eligible event will trigger creation of the budgetary structure of the loan, as provided in the executive decree for the state of emergency or natural disaster. The borrower will assign the necessary budgetary and accounting line items for the emergency’s specific expenditures. |
| ☒ | Treasury and disbursement management | <p>Disbursement methods: The executing agency may submit disbursement requests within the period established for this operation under the following modalities:</p> <ul style="list-style-type: none"> (i) Advances of funds to finance future eligible expenditures up to a limit of 35% of total approved coverage. (ii) Reimbursements of eligible expenses incurred by the borrower using its own funds for up to 100% of total approved coverage. (iii) Direct payments made by the Bank to third parties in the name and at the request of the borrower for amounts agreed upon between the borrower and the Bank. |

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| | | <p>Designated account: To administer the advances of funds, the Bank and the borrower will agree, prior to the request for an advance, to designate an account at the central bank or an accounting subaccount in the country's treasury single account or an equivalent account that can be used to manage and identify the use of funds.</p> <p>Accounting for funds advanced: For the borrower to be able to request a new advance of funds, it must justify to the Bank at least 60% of total cumulative balances pending justification.</p> <p>Eligibility of expenditures: Expenditures incurred within the period and consistent with the eligibility criteria established in the loan contract.</p> <p>Projection of prioritized expenditures: Prior to each request for an advance, the borrower will provide the Bank with a projection of financial needs and prioritized eligible expenditures consistent with the amount of the requested advance and based on the cash flow model, to be submitted to the Bank on a timely basis. The Bank will perform a preliminary review of the information delivered according to the applicability criteria in relation to the list of prioritized expenditures, as well as proportionality in relation to the allocation of the requested resources. If necessary, the Bank may propose changes to the borrower.</p> <p>Declaration of expenditures financed with own resources: The borrower will include a declaration letter signed by the executing agency in the reimbursement request, expressly indicating that the expenditures to be reimbursed by the Bank were financed exclusively with treasury resources.</p> |
| <input checked="" type="checkbox"/> | <p>Accounting, information systems, and reporting</p> | <p>Specific accounting standards: Government accounting standards. It is expected that the International Public Sector Accounting Standards (IPSAS) will begin to be applied in 2022.</p> <p>Accounting method and currency: The accrual method will be used for accounting. However, the project's financial reports should be prepared on a cash basis and in U.S. dollars, which is the disbursement currency.</p> <p>Reports: Statements of expenditures related to the emergency will be prepared by the government entities that have executed the loan proceeds, and will be consolidated and submitted by the executing agency, based on information in the UEPEX/SIAFI system with auxiliary Excel files, if necessary. The items included in the statement of expenditures must be sufficiently detailed to allow the Bank to discern the expenditures incurred and, at the same time, to facilitate the expenditure audit process. Each item listed in the statement of expenditures must have, at a minimum, the breakdown of information agreed upon with the Bank. The Bank will provide the corresponding formats.</p> |
| <input checked="" type="checkbox"/> | <p>Internal control and internal audit</p> | <p>Project execution is based on the application of national policies, so relevant provisions will be applied to the country's internal control systems, supplemented by the program Operating Regulations.</p> |

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| <input checked="" type="checkbox"/> | <p>External control and financial reports</p> | <p>Audited financial statement: The borrower, acting through SEFIN, will deliver a final reasonable assurance report issued by a Bank-eligible external audit firm in the country, as applicable, to the Bank within 365 calendar days after the eligible event.</p> <p>The audit will be commissioned by SEFIN with the loan proceeds, in accordance with the terms of reference previously agreed upon with the Bank. The borrower will finalize the engagement of the independent audit firm within 45 days after the first disbursement. The Bank's procurement policies may be used for this contracting.</p> <p>Final report: The audit firm will produce a final reasonable assurance report that will be a prerequisite for delivery of the borrower's final accounting for the use of resources within 365 calendar days after the occurrence of the eligible event.</p> <p>The audit firm will express a conclusion, with a reasonable degree of certainty, as to whether the expenditures submitted by the borrower comply with policies, procedures, characteristics, records, and supporting documents sufficiently to be declared eligible as stipulated in the loan contract and applicable policies.</p> <p>The Bank may request partial audited progress reports on the execution of expenditures, which may accompany the submission of partial accountability reports.</p> <p>Additionally, the Bank, at its sole discretion and without cost to the borrower, may verify the appropriateness of the expenditures declared as eligible by means of independent external audits. Such audits will be performed no later than two years after the end of the disbursement period of the corresponding CCF contingent loan.</p> <p>If the Bank finds ineligible expenses as a result of any of the loan audits, it may require that the borrower immediately rectify the situation or reimburse the disputed amounts.</p> |
| <input checked="" type="checkbox"/> | <p>Financial supervision of the operation</p> | <p>Financial supervision will be conducted through visits, working meetings, and review of the assurance reports or other audited financial reports.</p> |

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Honduras. Loan HO-00008 to the Republic of Honduras
Contingent Loan for Natural Disaster and
Public Health Emergencies

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Honduras, as borrower, for the purpose of granting it a Contingent Loan for Natural Disaster and Public Health Emergencies. Such contingent credit will be chargeable to the Bank's Ordinary Capital (OC) resources in the following manner: (i) up to the amount of US\$140,000,000, subject to concessional financial terms and conditions ("Concessional OC"); and (ii) up to the amount of US\$260,000,000, subject to financial terms and conditions applicable to loan operations financed from the Bank's regular program of OC resources ("Regular OC"), both subject to the availability of resources from the Bank's regular loan program with the Republic of Honduras or from the Automatic Redirection List, as the case may be, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2021)