

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC35717

Project Name	Honduras PPCR Phase 1 Grant
Region	LATIN AMERICA AND CARIBBEAN
Country	Honduras
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Project ID	P157795
Borrower Name	Secretaria de Finanzas de Honduras (SEFIN), Secretaria de Energia, Recursos Naturales, Ambiente y Minas
Implementing Agency	Honduran Strategic Investment Office (INVEST-H)
Environment Category	C - Not Required
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Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Country Context

1. Honduras has the third-lowest per capita income in the Western Hemisphere. About one in every five Hondurans lives on less than US\$ 1.90 a day; and, according to reports on poverty in 2013, nearly 65% of Honduran households live in poverty and 43% in extreme poverty. Nearly 80% of Hondurans under the age of 15 live in poor households, and approximately one in four suffers from malnutrition, which has negative implications on their learning abilities and future earning capacity. Since the global economic crisis of 2008-2009, Honduras has experienced a moderate economic recovery; however, the fiscal situation in Honduras worsened significantly in 2012 and 2013, bringing a slowdown in GDP growth and an increase in public debt. These challenges have significantly threatened Honduras' efforts towards reducing poverty and promoting shared prosperity.

2. In Honduras, poverty and inequality are widespread, creating a large gap between those living in urban and rural settings. About half of the population lives in rural areas where the incidence of poverty is almost 77%, compared to a rate of 56% in urban areas, and, of these rural-dwelling families, approximately 72% are engaged in subsistence farming on small plots of land. The World Food Programme estimates that 60% of Hondurans suffer from food insecurity, and while urban poverty has decreased nationwide, extreme poverty has increased in rural areas by 10% (although this is mainly attributable to the devastating effects of Hurricane Mitch in 1998). In Honduras, rural poverty is mainly concentrated in the western and southern regions of the country, known as the Dry Corridor, which represents 70% of total poverty and 58% of all extreme poverty.

3. At the same time, a gradual process of urbanization has taken place in Honduras, with annual growth rates of the urban population higher than the national population growth rate (3.16% compared to 2.01% in 2013). According to UN-HABITAT, it is projected that the majority of Hondurans will live in urban areas by 2025 (61.6% of 10.7 million inhabitants). To date, urban development has largely been unplanned and without regulation or control, leaving many people to live in areas highly exposed to natural hazards.

Sectoral and Institutional Context

Climate Vulnerability Context

4. The structural inequalities that create and maintain poverty and limit inhabitants' access to resources, as well as the challenges posed by a growing urban populations, are further compounded by increased exposure and vulnerability to climate-related events. Climate-related hazards in the region include drought and water deficit in the western, south-central, and south-eastern regions (known as the Dry Corridor), as well as tropical storms and cyclones (which cause flooding and landslides) that occur nationwide, but with greater incidence in the northeast and Caribbean coastal regions.

5. According to the Global Climate Risk Index 2016, published by Germanwatch, Honduras was the country most affected by extreme weather events during the 1995-2014 period. It is estimated that the annual economic losses from weather events were equivalent to 2.23% of GDP during that period. In 1998, Hurricane Mitch, the greatest disaster to affect Honduras in recent history, impacted 90% of its territory and created estimated total damages of 81% of GDP.

6. Further, projected climate patterns suggest that Honduras' climate vulnerability is on the rise .

➤(ç By 2020, projections indicate there will be about a 6% decrease in annual rainfall in the west and south of the country, and a 0.8°C increase in the mean annual temperature.

➤(ç By 2050, a decrease in rainfall by 20% - 25% across most of the country, particularly in the central-western region, and a projected reduction in the rainy season between June and August with a prolonged dry period.

➤(ç By 2090, the projected rainfall would amount to just 30% - 40% of current levels, and average temperatures are projected to increase by 4°C in most parts of the country. An expected increase in atmospheric pressure (of around one hectopascal) is also projected.

7. With regard to adaptation efforts, the Global Adaptation Index (ND-GAIN) ranked Honduras 128 out of 178 countries analyzed, and 30th in terms of preparation for strengthening adaptation capacities. In this context, Honduras needs significant investment and continued efforts to strengthen institutions and ongoing activities to increase its resilience to climate change.

8. The public has also become increasingly aware of the value of disaster risk management associated with weather-related events. In recent years, droughts have become more frequent and severe, increasingly affecting a larger part of the territory and people throughout the country. These emergencies, along with continued international calls from the UN Framework Convention on Climate Change (UNFCCC), have increased awareness among civil society groups and the private sector regarding the need to address climate change through a government-led process, in particular, through the Ministry of Environment (MiAmbiente).

Context in Prioritized Sectors for the PPCR Phase 1

Agriculture

9. Natural hazards can have a particularly devastating effect on the poor, and in Honduras the absence of crucial physical, institutional and economic infrastructure leaves poor families especially vulnerable to climate change. Honduras suffers from environmental hazards ranging from hurricanes and tropical storms to droughts and erratic rainfall patterns. World Bank Group research has shown that catastrophic events have led to significant drops in household consumption per capita, compelling individuals to decrease calorie consumption, work longer hours and pull children out of school. The adverse impacts of disasters may also disproportionately affect women, who often experience higher rates of mortality, morbidity and diminished earnings.

10. Rural poverty is most heavily concentrated in the western and southern areas of the country, known as the Dry Corridor (Corredor Seco). 65 percent of rural households were chronically poor, compared to 31 percent of urban households, and rates of extreme poverty were particularly high among agricultural workers. The rural poor overwhelmingly rely on agriculture as their principal livelihood: 72 percent of agricultural families in Honduras are engaged in semi-subsistence farming, which is typically characterized by low marginal productivity and extreme vulnerability to shocks.

11. A recent analysis by the International Food Policy Research Institute (IFPRI) show that many farmers are unwilling to assume the risk of diversification away from staple crops due to the sector's vulnerability to environmental shocks, their own limited access to agricultural credit and insurance mechanisms, and the limited extent of emergency preparedness infrastructure to counter the threat of food insecurity.

Water Security

12. Water resources are abundant throughout Honduras, however, the country is increasingly impacted by water scarcity. With some 93 billion cubic meters/year of fresh surface water and on average water availability per capita of approximately 11,381 cubic meters/year, the country on the whole is well above water stress levels. Honduras consumes less than 9.1 percent of water resources available, 71% of this is consumed for irrigation purposes.

13. Climate variability accentuates drought cycles and significantly impacts the water supply, particularly in rural areas. Honduras has over 7,000 registered rural water systems administered by local inhabitants. As a result of annual droughts about 28 percent of rural water systems run dry at least once during the dry season, and over half of existing rural water systems lack functioning water treatment systems. Storage facilities could mitigate the effects of seasonality, but few have been built. Although an effective rural water and sanitation information system is in place, there is inadequate capacity at the central and local levels to provide up-to-date and consistent information to guide the planning process and facilitate interventions.

14. Unplanned urbanization, rapid population growth, and increasing concentration of settlements and assets in hazard prone areas coupled with considerable environmental degradation have resulted in rising exposure and vulnerability to natural catastrophic events. Limited provision

of public services, and appropriate storm water management systems increase the probability of flooding and water rationing in urban areas, which are increasingly impacted by uneven water scarcity.

15. Water scarcity combined with insufficient investment to maintain existing coverage in light of the country's rapid urbanization has resulted in a smaller proportion of the urban population having access to improved water now than in 1990. This scenario affects other sectors, where the lack of access to improved water and sanitation in schools also contributes to inequality in access to education with only 62 percent and 80 percent of the school facilities in the country have access to improved sanitation facilities in rural and urban areas respectively.

16. In particular, water scarcity has become an issue in major cities such as the capital city of Tegucigalpa, heightened by rapid urbanization. Drinking water for Tegucigalpa mainly comes from surface waters and its main water system operates at a 55 percent deficit. The National Water Utility (SANAA) estimates a current citywide demand for water to be 4 m³/s, while the system only provides around 1.8 m³/s, as a consequence water rationing is in effect year round.

Institutional and Instrumental Framework to Implement the PPCR

17. In response, to climate variability the Government of Honduras has already made significant efforts to meet the challenges of climate change. Among these efforts are the inclusion of climate change adaptation and mitigation approach in the national planning system, the development of the first and second national communication to the UNFCCC, as well as the design, and approval in 2010, of the National Climate Change Strategy (NCCS).

18. One of the National Plan's (NP) strategic guidelines is the adaptation and mitigation of climate change. The NP states that by the year 2022, Honduras will have consolidated an institutional framework to promote and maintain in force the issues of adaptation and mitigation of climate change; and by 2038, all sectoral planning, and public and private investment will be implemented with a climate change mitigation and adaptation approach.

19. The Ministry of Natural Resources and Environment created in 2010, the National Division of Climate Change (NDCC) who led the approval of the Climate Change Law (Decree No. 297-2013) and the design and approval in 2014 of the National Climate Change Strategy which scope and content, are consistent with the Country Vision and the National Plan. The NCCS identifies seven prioritized sectors, among them water, agriculture and food security. For each sector, climate-related vulnerability and impact assessments were carried out through consultations with experts, workshops and validation with change patterns projected for the key climatic variables, in line with the climate change scenarios developed for the country.

20. One of the initial tasks of the NCCS is the establishment of a national policy framework on climate change and the definition of the appropriate instruments for an effective implementation, including the formulation of the National Adaptation Plan.

Implementation Arrangements and Rationale for Selected Sectors

21. The political leadership for the PPCR in Honduras lies with the sectoral Ministry for Economic Development, which coordinates the portfolios of Environment, Agriculture, Social Security,

Tourism, and the Forest Conservation Institute (ICF), among others. At the technical level, the Government of Honduras has confirmed the Ministry of Environment (MiAmbiente) as the leading institution for PPCR.

22. Mi Ambiente led a series of workshops with the participation of 127 key stakeholders from the public, private and community levels, in addition to NGOs, academy and international cooperation to evaluate the results of recent projects on adaptation to climate change, as well as identifying the key sectors that will be prioritized in the SPCR. The consultation process key sectors identified include: (i) resilient water resource management through better governance of water, integrated water resource management creation of knowledge and investments in water infrastructure for multiple uses; and (ii) agriculture and food security.

Relationship to CAS/CPS/CPF

23. The Systematic Country Diagnostic (SCD) for Honduras recognizes that it will be critical for Honduras to build resilience to natural hazards, as these are expected to increase in frequency and severity due to the expected impacts of climate change. The SCD further highlights the continued peril that climate-related events have repeatedly inflicted upon Honduras by derailing growth, which creates immense economic losses and breeds macroeconomic uncertainty for the country. As such, the SCD stresses that Honduras must improve the management of meteorological and geological knowledge and further develop risk-assessment mechanisms in order to mitigate its inherent vulnerability.

24. Further, the PPCR is directly linked to Honduras' Country Partnership Framework (CPF) via Pillar 3, Reducing Vulnerabilities; Objective 6, Boost resilience to disasters and climate change. This objective highlights that Honduras requires significant investments and continued efforts to strengthen institutions and activities aimed at enhancing resilience to climate change and natural hazards, as well as establishes expected outcomes of a government more able to respond to natural disasters and manage climate change resilient risks. These are the same outcomes and goals that the PPCR aims to achieve. Further, the PPCR aims at contributing to the sub-objectives under each pillar of the CPF focused on institutional strengthening at the relevant level to improve service delivery. This includes climate-smart planning, prevention services, and improving basic services.

II. Project Development Objective(s)

Proposed Development Objective(s)

28. The proposed PDO is to formulate a Strategic Program for Climate Resilience (SPCR) and its investment plan, as well as to establish the enabling environment and conditions for the integration of climate resilience into development planning and implementation.

Key Results

29. The primary result will be the development of Honduras's SPCR, which is a country-owned strategic document that will outline the country's vision on enhancing precision of climate models, building climate resilience and mainstreaming climate adaptation at the prioritized sectoral levels, identified in Honduras's Expression of Interest for the PPCR. The formulation of the SPCR will be carried out through a participatory process of national consultation that takes into account perspectives of gender, indigenous/local communities, and other vulnerable groups.

Additional key results are expected during the implementation of the PPCR Phase 1:

- Improved baseline information on climate-related risks in vulnerable sectors, and strengthened evidence on the impacts of climate change across Honduras.
- Defined technical criteria for the prioritization of strategic investments, in line with the guidelines outlined in the NCCS and the National Development Plan (Visi3n de Pa3s).
- Strengthened capacity of the CTICC for inter-institutional coordination.
- Strengthened capacity for the execution and management of financial resources in MiAmbiente and the Ministry of Finance (SEFIN).
- Increased level of awareness and information on climate risks and climate change adaptation at the national level, as well as across selected sectors and territories.

22. Key outcomes of the implementation of the PPCR Phase 1 Grant are expected to be:

- Improve the climate modeling, providing a better understanding of climate risks that contributes to a more precise analysis on the impacts of the SPCR, including a social and distributional effects analysis of those impacts.
- Consensus on strategies to build resilience to climate change and an appropriate action plan to be included in the SPCR, with clear identification of the priority areas in the short-, medium-, and long term.
- Identification of the institutional framework and policies (and strengthening needs), in order to facilitate greater access to financing for initiatives that promote development that is resilient to the effects of climate change.
- Improvements in learning and knowledge sharing on the integration of adaptation to climate change in development planning.

III. Preliminary Description

Concept Description

31. In the context of Honduras, the program will focus on the following several priority areas, which were identified in the Expression of Interest submitted by Honduras to the PPCR in March 2015, and further confirmed during the March 2016 PPCR Joint Mission:

- Institutional strengthening and strengthening of legal/policy framework on climate change
- Improved knowledge and understanding of risks and processes for monitoring, analysis, evaluation, and alert/early warning systems
- Improving resilient agriculture.
- Promoting water security, including integrated water resources management and water & sanitation.

32. The PPCR Phase 1 Grant is expected to be implemented through four components, consistent with the Phase 1 proposal approved by the PPCR/CIF in March 2016. The components are as follows:

➤(€ Component 1: Risk analysis to strengthen climate resilience programs and policies.

Improving knowledge on climate risks at the territorial and sectoral levels: (a) establishment of damage and loss scenarios associated with climate-related and hydrological hazards; (b) distribution of vulnerabilities, and analysis of future trends that will have impacts nationwide as well as in specific areas; (c) diagnosis and formulation of proposals for strengthening hydro-meteorological and climate services..

➤(€ Component 2: Information for the design of policy reforms and for institutional strengthening.

(a) Review and formulation of proposals to strengthen the regulatory framework to and improve inter-institutional coordination mechanisms related to climate change strategies and their mainstreaming in priority sectors, such as: (i) water security, including water resources management, water supply and sanitation; (ii) agriculture, food and nutrition security; and (iii) disaster risk management.

(b) Institutional Analysis to inform capacity building needs and strategies, and help institutionalize and mainstream resilience across prioritized sectors through participatory processes.

Based on the results of the institutional analysis outlined above, some of the following capacity building activities will be prioritized and carried out:

➤(€ Development of institutional capacities for climate variability and change at the sectoral level. This may include sharing of international best practices or south to south exchange related to the integration of adaptation to climate change for prioritized sectors.

➤(€ Development of institutional capacities of SEFIN and MiAmbiente to monitor and evaluate the achievement of objectives and expected results in terms of climate resilience to consolidate existing M&E systems in the NCCS and NAP.

➤(€ Component 3: Design and implementation of a participatory consultation at an institutional level, in the context of SPCR development.

(a)Development of a participatory consultation process to be undertaken in the country, including effective communication of key messages on the results of analytical studies undertaken in the PPCR context, and on proposals for action on climate variability and change to be included in the SPCR.

(b)Awareness raising activities in relation to environmental issues, climate change, and disaster risk, with a focus on specific stakeholders, including communities and populations most affected by climate variability and change in the country, NGOs, CSOs, academia, private sector, among others. Efforts to identify communication gaps at the institutional level , which may hinder awareness raising efforts, understanding of climate risks and the formulation of priority actions, will be made.

This will include the perspectives of women, youth, indigenous peoples, local communities, and other vulnerable social groups

➤(ç Component 4: Formulation of the SPCR accompanying strategic investment plan built under a participatory process.

Formulation of the SPCR to integrate climate resilience into national development policies, including a portfolio of strategic projects (investment plan) for priority areas will be developed, conducting technical pre-feasibility studies for the identified priority investments. The studies and identified priority investments (investment plan) will take into account the National Development Plan (Vision de PaÃ-s), the NCCS, the NAP and other existing planning instruments. The technical criteria for the prioritization of investments that are to be considered within the SPCR investment plan will take into account environmental and social dimensions.

Synergies will also be sought with other CIF programs in Honduras (SREP and FIP), as well as with other ongoing initiatives related to climate change in the country.

33. Tasks associated with the technical coordination of the Phase 1 of the PPCR, financial management and procurement, monitoring, evaluation, and presentation/dissemination of results will be financed through this grant.

34. Through this work, the PPCR is expected to produce the following and results:

- (çImprove convergences between climate model predictions, enhancing baseline information on climate-related risks in vulnerable sectors, and strengthened evidence on the impacts of climate change across Honduras.
- (çConsensus on strategies to build resilience to climate change and an appropriate action plan to be included in the SPCR, with clear identification of the priority areas in the short, medium, and long term.
- (çIdentification of the institutional framework and policies (and strengthening needs), in order to facilitate greater access to financing for initiatives that promote development that is resilient to the effects of climate change across selected sectors and territories.
- (çStrengthened capacity of the CTICC for inter-institutional coordination.
- (çStrengthened capacity for the execution and management of financial resources in MiAmbiente and the Ministry of Finance (SEFIN).
- (çIncreased level of awareness and information on climate risks and climate change adaptation at the national level, as well as across selected sectors and territories. The assessment places emphasis on water security, which raises the need for complementing the water demand analysis, including the current physical state of the basins, water quality and hydro met networks.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	

Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	1.4	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Strategic Climate Fund Grant			1.4

VI. Contact point

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