I. Project Context

Country Context

Honduras is a lower-middle income country (GNI per capita of US$ 3,770 in 2010) facing significant poverty and development challenges, which are aggravated by its high vulnerability to natural disasters. The country is the second largest in Central America with an area of 112,492 square kilometers and the second most populated with about 7.6 million people, almost half of whom live in urban areas. Poverty had shown a declining trend since 2005. Nevertheless, with the economy's contraction following the 2008-2009 global economic crisis poverty rose by more than 150,000 people between 2009 and 2010, when around 60 percent of the population was estimated to be poor. Since then, the moderate recovery propelled by public investments, exports, and higher remittances has led to a gradual decline of poverty levels. Economic recovery is reflected in GDP growth of 2.8 percent in 2010 and 3.6 percent in 2011. Despite the global uncertainties, Honduras' growth outlook remains positive and the economy is expected to grow 3.6 percent in 2012.

Government efforts to reduce poverty and sustain economic growth have been hindered by the country's high vulnerability to disasters, especially hurricanes, tropical storms and associated impacts such as flooding and landslides. In addition, earthquake activity has not been uncommon in the country. Globally Honduras ranks 9th among countries at relatively high mortality risk from exposure to two or more natural hazards. Hurricane Mitch in 1998, the worst natural disaster in the country's recent history, affected 90 percent of its territory, resulting in over 5,700 dead and 8,000 missing, and almost half a million people displaced. Mitch's overall damage amounted to nearly 40 percent of GDP, including agricultural losses of 70 to 80 percent. Subsequent extreme meteorological events seem to suggest that Honduras' disaster vulnerability is on the rise. Between 1980 and 2010, over 15,000 people were killed and over 4 million were affected by disasters in Honduras, including agricultural losses of 70 to 80 percent. Subsequent extreme meteorological events seem to suggest that Honduras' disaster vulnerability is on the rise. Between 1980 and 2010, over 15,000 people were killed and over 4 million were affected by disasters in Honduras, while economic damage amounted to US$4.5 billion.

In addition to poverty levels, rapid urbanization and environmental degradation render the country particularly vulnerable to natural hazards. The effects of increasing climate variability further aggravate Honduras' disaster risk. The combined effect of the aforementioned challenges is reflected by the indicators of disaster risk and risk management developed by the Inter-American Development Bank (IDB, 2010). In 2008, Honduras was ranked first in the Disaster Deficit Index (DDI) with a score of 6.96, which means that extreme disasters may overwhelm the government's economic ability to cope with losses by seven times. Likewise, the expected annual loss, or the average loss of future disasters, is almost 30 percent of capital/investment costs. Other indicators, such as the Prevalent Vulnerability Index (PVI, the Risk Management Index (RMI), and the Local Disaster Index (LDI), suggest that Honduras is the country in the region with highest economic losses due to smaller and more geographically concentrated disasters. These indices highlight Honduras' need to continue strengthening its national and local disaster risk management (DRM) capacity, and the important role that development institutions like the World Bank can play in this effort.

II. Sectoral and Institutional Context

Honduras has demonstrated its commitment to improving DRM capacity, including preparedness and reducing disaster vulnerability. At the national level, there are advances in institutional capacity and coordination, building on a more consolidated legal framework for DRM. With support from the Bank-financed Natural Disaster Mitigation Project (PMDN, P064913) and other donors, the country has strengthened key agencies such as the Honduran Disaster Risk Management Agency (COPECO) and the Ministry of Environment (SERNA). PMDN, implemented from 2000 to 2010, also assisted the preparation and passage of the 2009 law establishing Honduras' formal disaster risk management system (SINAGER). At the same time, the country has made progress in risk information and knowledge by improving its hydrometeorological forecasting accuracy and timeliness through the integration of national monitoring, forecasting and decision support systems.

Honduras has also made considerable progress in DRM at the local level through the participation of local officials and communities in relevant risk analyses and preparation of Municipal Territorial Development Plans (PMTDs), Municipal Risk Management Plans (PMGRs), and Municipal Emergency Plans (PEMs). Coordination between the national, municipal, and local level, as well as information exchange within the national emergency response network, has been effectively promoted through the establishment of Municipal Committees for Emergency Response (CODEMs) and Local Committees for Emergency Response (CODELs).
Despite the above progress, Honduras still faces several challenges: (a) furthering institutional and policy consolidation within the framework of the SINAGER law and the new regional planning approach based on watersheds, especially considering the capacity strengthening needs of COPECO and the recently created Ministry of Planning and External Cooperation (SEPLAN); (b) focusing attention on environmental sustainability issues for DRM in the light of increasing climate variations which demand a more holistic understanding of the factors affecting disaster risk; (c) generating information and knowledge on disaster risk and vulnerability at the regional and local level to facilitate decision making and community engagement; (d) improving local capacity for DRM and promoting it within a forward-looking territorial planning framework that ensures sustainability of DRM investments and prevents settlement of high-risk areas; (e) adopting risk financing strategies and mechanisms to reduce fiscal vulnerability; and (f) developing risk reduction strategies for key economic and infrastructure sectors to promote sustainable development. The Project will help Honduras address these challenges, in close coordination with complementary efforts supported by the Bank and other development partners.

III. Project Development Objectives
The Project Development Objectives (PDO) are to support Honduras (a) to continue strengthening its capacity for integrated disaster risk management at the municipal and national level; and (b) to improve its capacity to respond promptly and effectively to an eligible emergency.

IV. Project Description

Component Name
Component 1: Strengthening of National-level Capacities
Component 2: Strengthening of Municipal and Community-level Capacities
Component 3: Implementation of Mitigation Measures
Component 4: Project Management, Monitoring and Evaluation
Component 5: Contingency Emergency Response Component

V. Financing (in USD Million)

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<tr>
<th>For Loans/Credits/Others</th>
<th>Amount</th>
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<tr>
<td>International Development Association (IDA)</td>
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<td>Total</td>
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VI. Implementation

The Project's implementing agency will be COPECO, which carried out PMDN satisfactorily and is currently in charge of the IDB-financed MITIGAR Project. A PCU has been established within COPECO under a Coordinator with operational and administrative autonomy, reporting directly to the Minister-Commissioner of COPECO. The PCU will include the necessary technical, administrative, and procurement staff for the Project's effective implementation. As was the case under PMDN, COPECO, through its PCU, will administer all of the Credit’s resources. There will be no direct transfer of resources from COPECO to other agencies or participating municipalities. As required, the Ministry of Finance (SEFIN) and COPECO will sign a Subsidiary Agreement.

The Project will include the following co-executing agencies: SEPLAN, SERNA and AMHON. The representatives of these agencies, as representatives from the Regional Council of Sula Valley and of the National Table for Promoting DRM (MNIGRD) will integrate a Project Coordinating Committee (PCC), which will be presided by COPECO’s Minister-Commissioner or his delegate. SEFIN will be invited to participate in the PCC depending on the issues at hand. When necessary, the PCC will establish a Technical-Operational Committee (TOC) to follow up on specialized issues. COPECO will sign agreements by component with the co-executing agencies to promote coordination and collaboration.

Based on implementation needs, COPECO will also engage with collaborating agencies including, among others, the UNAH, the Ministry of the Interior and Population (SEIP), the Ministry of Education (SE), the Flood Control Committee of the Sula Valley (CCIVS), the Property Institute (IP), and the national associations of architects and engineers (CAH and CICH). When necessary, a Memorandum of Understanding will be signed between COPECO and a collaborating agency.

Municipalities that will benefit from the Project will sign a Participation Agreement with COPECO describing, inter alia, their role and responsibilities, and operation and maintenance commitments related to any mitigation investments financed by the project. Coordination with other projects and initiatives would be facilitated through the DRM coordination committee of development partners.

VII. Safeguard Policies (including public consultation)

<table>
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<tr>
<th>Safeguard Policies Triggered by the Project</th>
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<tr>
<td>Environmental Assessment OP/BP 4.01</td>
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<td>Pest Management OP 4.09</td>
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<td>Physical Cultural Resources OP/BP 4.11</td>
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<td>Indigenous Peoples OP/BP 4.10</td>
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</table>
VIII. Contact point

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