Strategy for Disaster Risk Finance Management

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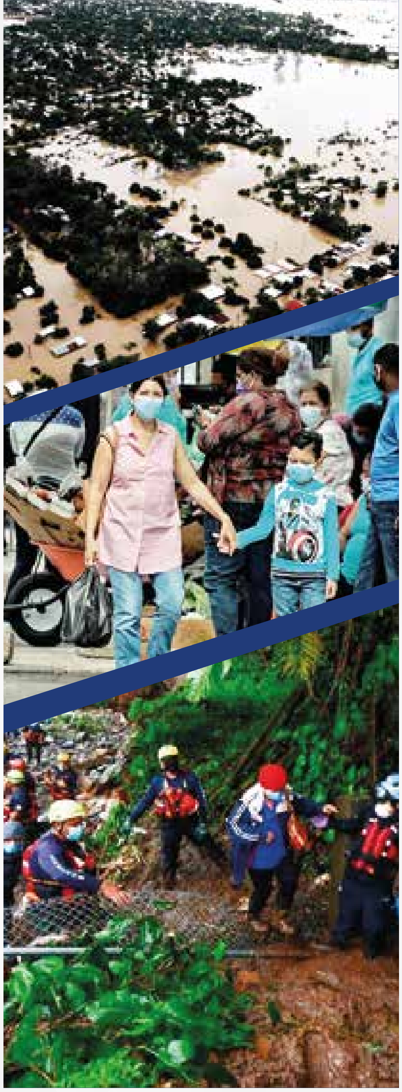

Gobierno de la República de Honduras

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Abbreviations and Acronyms

CC	Climate Change
Cat DDO	Catastrophic Credit Line with Deferred Drawdown Option
CERC	Contingent Emergency Response Component
COPECO	Permanent Contingency Commission
DGCP	General Directorate of Public Credit
DGIP	General Directorate of Public Investment
DPMF	General Directorate of Macro-fiscal Policy
DGP	General Directorate of Public Budget
FONAPRE	National Preparedness and Response Fund
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Risk Reduction
GRD	Disaster Risk Management
IMF	International Monetary Fund
LRF	Fiscal Responsibility Law
MMFMP	Medium-term Fiscal Macro Framework 2020-2023
NFPS	Non-Financial Public Sector
PEGIRH	State Policy for Integral Disaster Risk Management
SEFIN	Secretariat of Finance
SINAGER	National Risk Management System
SNIPH	Honduran National System of Public Investment
Strategy	Disaster Risk Finance Management Strategy
UCF	Fiscal Contingency Unit

*All abbreviations are in Spanish.

Introduction

Honduras is the second-largest country in Central America, with 9.6 million people, 15.8% of the population living in poverty, and a low average per capita income of US$2,604. [1] Its Gross Domestic Product (GDP) presented an average growth of 3.8% in the last five years, with 2017 showing the highest increase (4.8%). However, growth in 2019 dropped to 2.7%, mainly due to the impact of external shocks on agricultural exports, limited investment, crime, migration, and exposure to natural phenomena.[2] Fiscal risks, particularly those associated with emergencies due to COVID-19 and the effects of storms Eta and Iota, threaten development and growth stability; therefore, the Ministry of Finance (SEFIN) reaffirms its commitment to ensure the resilience of public finances as a tool for the country's development.

Since 2014, SEFIN has been implementing fiscal and monetary policy actions in line with the country's commitment to generate greater fiscal stability and transparency at the public's service. Prudent management of fiscal policy has allowed Honduras to obtain a debt ratio of the Non-Financial Public Sector (NFPS) in relation to GDP of 44.9% in terms of net present value as of October 31, 2020. Consequently, confidence in the Honduran economy has increased, leading to improvements in the country risk rating (BB- and B1). [3]

Honduras is exposed to hydrometeorological, geological, and epidemiological phenomena that have historically generated human and economic losses.[4] According to the INFORM index, the country has the second-highest risk of disasters linked to natural, epidemiological, and conflict phenomena in the Central American region[5]. Between 1912-2019, floods caused the most significant economic losses (48.5% of total losses due to natural phenomena), followed by droughts (34.1% of total losses)[6]. Both phenomena mainly affect the agricultural sector, which represents 12.9% of GDP and employs 35% of the population.[7] In 1998, Hurricane Mitch was one of the events with the most devastating impact on the territory. It affected 6.2 million Hondurans, and caused 5,657 human losses and US$3,800 million in damages (77% of 1998's GDP), equivalent to 20 years of socioeconomic decline. [8]

[1] 2019 data from "Macroeconomic Policy Outlook" (World Bank, 2020a).
[2] "Global Economic Prospects" (World Bank, 2020b).
[3] Debt data as of July 2020, from the "Macroeconomic Policy Outlook" (World Bank, 2020a). Credit risk as of May 2020 (S&P Global, 2020).
[4] "Global Crisis Risk Index Report". INFORM, 2019
[5] "Global Crisis Risk Index Report". INFORM, 2020
[6] "National Report on Comprehensive Disaster Risk Management in Honduras". COPECO, CEPREDENAC, UNISDR, EC (2013).
[7] "Analysis of agricultural policies in Honduras". IDB, 2019.
[8] "Annual Report on Contingent Liabilities and Macroeconomic Risks". SEFIN, 2019a.

The individual impact of the events to which Honduras is exposed is compounded by their recurrence and frequency. The particular effects of the COVID-19 pandemic have been estimated to generate an economic contraction of 7.1% of GDP and increase poverty by one percentage point during 2020. Although the revival of the domestic economy will yield 4.9% growth in 2021, estimations indicate that it will take at least three years to return to the poverty improvement levels achieved in 2019.[9] In addition to this scenario, Hurricanes Eta and Iota hit the country during November 2020, coinciding with the COVID-19[10] pandemic. The hurricanes have affected approximately 40% of the total Honduran population, leaving a death toll of 93. To date, 3,059 homes have been damaged and landslides, rivers, and floods have disrupted public infrastructure.

The Strategy for Disaster Risk Finance Management (Strategy) aims to strengthen fiscal resilience and financial response capacity to disaster risk associated with natural phenomena, climate change's adverse effects, and public health emergencies. While natural events are inevitable, human, physical, and economic losses can be reduced or avoided through the implementation of a Strategy that defines priorities for action. Incorporating disaster risk reduction measures rather than generating new disaster risks could increase the Honduran population's well-being by US$496 million (PPP) annually. [11] Every dollar invested ex-ante in the event of a hydro-meteorological hazard (drought or cyclone) can generate benefits ranging from US$1.7 to more than US$55.9. [12]

The Strategy sets out five priority lines or areas of action for the disaster risk finance management. The Strategy is a dynamic policy instrument that allows for establishing guidelines per the country's current priorities. It proposes five priority lines or areas of action following the provisions of Ministerial Agreement No.195-2020: (1) Generation of risk knowledge, associated with the identification and valuation of contingent liabilities and the potential fiscal impact in the face of disaster risk; (2) Finance of disaster risk management, associated with an efficient mobilization of resources mainly to promptly respond to disasters without affecting the country's fiscal stability; (3) Reduction of disaster risk through resilient public investment; (4) Efficiency and transparency in the execution of public spending on disaster risk management; and (5) Strengthening of institutional and technical capacities in SEFIN for disaster risk finance management.

The formulation, approval, and implementation of the Strategy represent the commitment of the SEFIN to the integral management of fiscal risks within the framework of the National Risk Management System Law (Decree No.151-2009), the General Law of Public Administration (Legislative Decree No.218-96), the Fiscal Responsibility Law - LRF (Decree No.25-2016), the State Policy for the Integral Management of Disaster Risks - PEGIRH (Executive Decree PCM-051-2013), the Medium Term Macro-Fiscal Framework, and the Ministerial Agreement No.195-2020.

[9] "Macroeconomic Policy Outlook" (World Bank, 2020a).
[10] Information on accumulated affectations as of November 24, 2020. "Incidence Report of Eta and Iota storms". COPECO, 2020.
[11] Unbreakable. GFDRR, 2017.
[12] DFID, 2013 (Bangladesh, Mozambique, Niger). Hess & Wiseman, 2007 (Ethiopia). USAID, 2018 (Kenya, Somalia).

SEFIN will lead the formulation, monitoring, and evaluation of the Strategy Implementation Plan in coordination with COPECO and SINAGER members. The actions, products, people responsible, and results linked to each of the strategic lines will be developed in the Implementation Plan. Likewise, the SEFIN recognizes that coordination and multi-sector commitment are necessary for the successful implementation of the Strategy and for compliance to strengthen fiscal resilience and financial response capacity to disaster risk. SEFIN appreciates the technical support of multilateral organizations in favor of strengthening the public finances and fiscal resilience of the country.

I. Institutional and Legal Framework for Disaster Risk Finance Management

The Strategy for Disaster Risk Finance Management in Honduras is framed in the State Policy for the Integral Management of Disaster Risk (PEGIRH) approved by Executive Decree No. PCM-051-2013. The PEGIRH is articulated under the guidelines of the Central American Policy for Integral Management of Disaster Risks (PCGIR), approved in 2010 and updated in 2015 with the Sendai Framework[13]. Likewise, the PEGIRH provides the framework for the implementation of public policies for integral disaster risk management and defines in its third specific objective the State's commitment to: "Establish and develop mechanisms that ensure the reduction of the State's financial vulnerability to disasters and increase its capacity for integral risk management, recovery, and resilience of Hondurans."

The law for the creation of the National Risk Management System (SINAGER)[14] establishes the Permanent Contingency Commission (COPECO), elevated in 2019 to the Secretariat of State,[15] including the coordinator of SINAGER and SEFIN as one of the 21 permanent members of the Executive Council. After the impact of Hurricane Mitch in 1998, Honduras incorporated disaster prevention as part of risk management. In 2003, the Territorial Ordinance Law was approved[16], promoting unified risk management in the territory. In 2005, the country adopted the United Nations Hyogo Action Framework 2005-2015, and based on it, established the creation of SINAGER. According to the SINAGER Law, the members of the system are responsible for planning and executing coordinated actions for disaster risk management. The Law recognizes that each member will implement the corresponding actions to the extent of its competencies, jurisdiction, and autonomy to achieve the system's common objectives in an articulated, concerted, and harmonic way (Art. 4, numeral 4, SINAGER Law). As part of the creation of SINAGER (SINAGER Law, Art. 21), the National Preparedness and Response Fund (FONAPRE) was created, intended to be a first line of fiscal defense against disasters.

One of SEFIN's functions is disaster risk finance management as a mechanism to safeguard financial stability and allow for economic growth and inclusive development. According to the General Law of Public Administration[17], the formulation, coordination, execution, and evaluation of policies related to public finances is the responsibility of SEFIN. As established in Article 57, numerals 1 to 3, of the Regulations for Organization, Operation, and Competencies of the Executive Branch, the SEFIN is responsible for the Honduras Government Revenue and Expenditure Budget, public credit, and internal and external public debt - including their registration and administration - and the programming of public investment under current policies.

[13] The PCGIR has a version harmonized with the Sendai Framework (PCGIR 2015-2030) that has not yet been incorporated into the PEGIRH.
[14] SINAGER Law: Decree No.151-2009
[15] Executive Decree No.PCM-051-2019
[16] Decree No. 180-2003
[17] Legislative Decree No. 218-96

The Fiscal Responsibility Law (LRF), of mandatory observance, establishes fiscal rules [18] that regulate the deficit (or primary balance) and indebtedness levels to maintain the country's fiscal stability. Its compliance may be exempted for up to a maximum of two years in cases of declared national emergency due to natural catastrophes affecting the national economy[19]. In these cases, the exception clause of the LRF is activated. The Executive Branch must include in the exception request: (a) the numerical limits of fiscal deficit and maximum current expenditure to be applied in the referred period regarding those established in the fiscal regulations, and (b) the actions leading to the compliance of fiscal regulations within the indicated period. The request is sent to the National Congress of the Republic, which has the power to approve the exception clause.

Since the beginning of 2020, SEFIN defined specific guidelines for financial management and improvement of fiscal resilience to the risk of disasters associated with natural phenomena[20]. Ministerial Agreement No. 195-2020 mandates the development of the "Strategy for Disaster Risk Finance Management". The preparation and implementation of the Strategy are aligned with the functions of SEFIN and the goals and objectives of the State for the efficient management of public resources (Organic Law of the Budget, Decree No. 83-2004). The Strategy contributes to the achievement of the economic reform program's objectives for the stability and growth of Honduras, as agreed with the International Monetary Fund (IMF).

SEFIN created the Fiscal Contingency Unit (UCF) to comprehensively manage fiscal risks in search for greater resilience.[21] Since its creation, UCF has worked to develop methodologies and procedures for the identification and evaluation of fiscal risks, including fiscal risks generated by natural phenomena. Thus, UCF incorporated in Chapter 8 of the "Annual Report of Contingent Liabilities and Macroeconomic Risks - 2019" (SEFIN, 2019[a]), a report of damages caused by natural phenomena during the period of 2005-2017.

The implementation of the Strategy for Disaster Risk Finance Management requires the leadership of SEFIN and the multi-sectoral work of the members of SINAGER. SEFIN, within the framework of its functions and following the Fiscal Responsibility Law, will coordinate to ensure the sustainability of public finances and manage the fiscal impact of disaster[22] risk and climate change.

[18] These are NFPS deficit, primary current expenditure and new arrears over 45 days.
[19] An eligible disaster is one that has caused damage equal to or greater than the equivalent of one percent (1.0%) of the annual Gross Domestic Product (GDP). Fiscal Responsibility Law (Decree No. 25-2016).
[20] Ministerial Agreement No. 195-2020, of February 4, 2020.
[21] Degree No. 115-2014 (Article 25-A)
[22] Associated with natural phenomena and public health emergencies.

II. Vision, Mission, and Strategy Objective

The development and implementation of the Strategy represents SEFIN's institutional commitment to disaster risk finance management as a policy instrument aligned with the principle of fiscal discipline and with the Fiscal Responsibility Law[23].

Vision of SEFIN for Fiscal Resilience
Resilient Public finances to disaster risk.

Mission of SEFIN for Fiscal Resilience
Coordinate, develop, and implement policies that contribute to the country's fiscal consolidation by reducing fiscal risks.

Objective of the Strategy for Disaster Risk Finance Management
To strengthen the resilience of public finances and the capacity to respond to disaster risk.

III. Strategic Areas

The Strategy for Disaster Risk Finance Management establishes five (5) strategic areas according to the country's current macroeconomic and fiscal context. The implementation of the Strategy is aligned with the State Policy for Disaster Risk Management - PEGIRH and the fiscal policy established in the current Macro Fiscal Medium-Term Framework. It will contribute to fiscal and financial consolidation and strengthening the management of public finances.

Five Strategic Areas

01 Generating knowledge of fiscal risk associated with disasters

02 Strengthening the management of disaster risk financing

03 Reducing disaster risk through public investment

04 Using the public budget efficiently and transparently in disaster risk management

05 Strengthening institutions for disaster risk finance management

[23] Decree No.25-2016.

III.1. Generating knowledge of fiscal risk associated with disasters

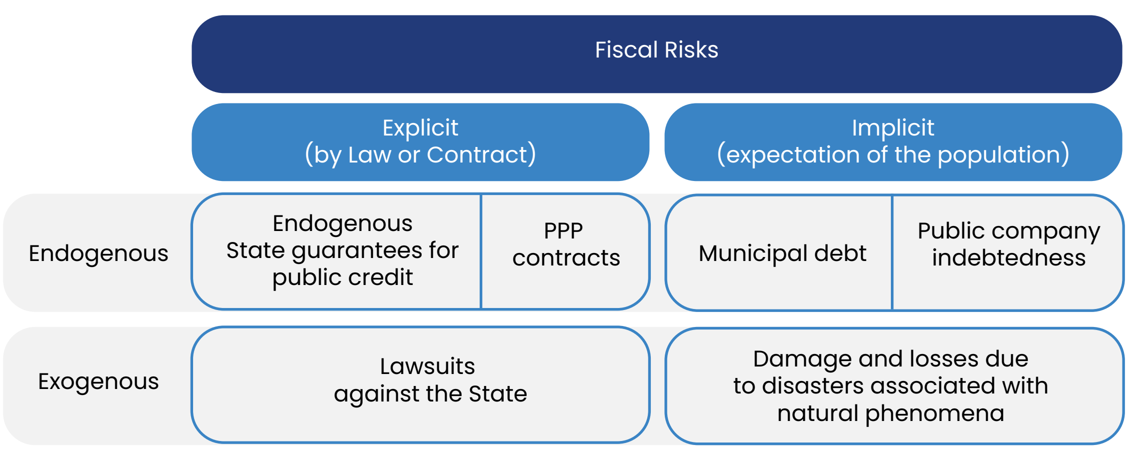
Specific Objective: Identify and valuate the contingent liabilities associated with natural phenomena and to estimate their possible impact on fiscal accounts.

The actions implemented under this strategic area will identify the State's fiscal contingencies, and prospectively analyze macroeconomic and fiscal scenarios to determine optimal financial instruments for disaster risk. SEFIN, in coordination with COPECO and SINAGER members, will identify actions, products, responsible parties, result indicators, and goals in the Implementation Plan.

Prioritized actions in the short and medium-term:

Develop methodologies to assess the State's contingent liabilities and respective mitigation plans against fiscal risks in the face of disasters. UCF leads the development of methodologies and procedures that provide technical soundness to the quantification of contingent liabilities for estimating fiscal risks, as well as the proposal of mitigation plans against them. Currently, it has created methodologies for estimating five of six types of fiscal risks. Developing a methodology to estimate contingent liabilities linked to disaster risk due to natural phenomena is still pending.[24] Knowledge of the State's contingencies is framed in the Fiscal Responsibility Law (Art. 25) and in pillar 3 "Analysis and Management of Fiscal Risk" of the IMF Fiscal Transparency Code. SEFIN recognizes and categorizes six primary sources of fiscal risk. See Figure 1.

Figure 1: Sources of Fiscal Risk



Source: Adapted from "Annual Report on Contingent Liabilities and Macroeconomic Risks - 2019". SEFIN, 2019.

[24] Chapter 8: Natural Disasters and their Effects on the Economy. "Annual Report on Contingent Liabilities and Macroeconomic Risks - 2019". SEFIN, 2019.

Establish protocols for the exchange of information among SINAGER members. To implement the methodology for quantifying contingent liabilities, UCF will require to have information at the national and/or local level on disaster risk, registration, and financial information on state assets. Providing information on hazards, and estimating and collecting facts for a historical database of direct post-disaster damage or losses are the responsibility of COPECO. To date, COPECO has estimated the Risk Index at the municipal level using the INFORM methodology.[25] The National Directorate of State Assets (DNBE) of SEFIN is in charge of the data on assets. Although the information is public, it is necessary to establish protocols that specify instruments, responsibility, periodicity, and type of information to facilitate the estimation of the State's contingent liabilities.

Evaluate and report the potential macro-fiscal impact of disaster risk due to natural phenomena. Within the framework of the LRF, the General Directorate of Macro-fiscal Policy (DPMF) is responsible for evaluating the economic and fiscal impact of risk associated with natural phenomena. These analyses allow for the estimation of a potential fiscal gap in the face of disaster risk. The estimation of a fiscal gap in the macro-fiscal accounts generated by the potential impact of disasters will serve as an input to the General Directorate of Public Credit (DGCP) for quantifying the financial needs of the country in the design and implementation of financial instruments to cover the gap.

[25] Ibid.

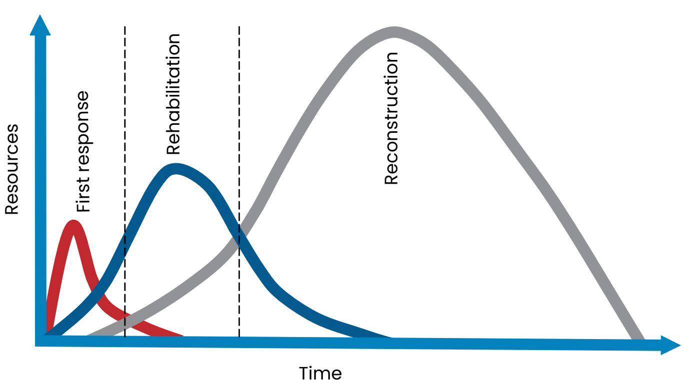
III.2. Strengthening the management of Disaster Risk Financing

Specific Objective: Identify, evaluate, and implement a combination of financial instruments for risk retention and transfer that response to the country's needs as they relate to disaster risk and climate change.

Actions implemented under this strategic area will provide Honduras with the technical information to identify and evaluate financial options according to its risk profile. This will allow the country to implement financial instruments (retention and transfer) as delineated by its macro-fiscal framework and its capacities under external debt contracting ceilings, as applicable. SEFIN, in coordination with COPECO and the members of SINAGER, will identify actions, products, responsible parties, result indicators, and goals in the Implementation Plan.

The identification and design of a portfolio of financial instruments requires a cost-benefit analysis that considers the timing of the need for resources. The need for resources increases in each of the three stages of disaster response (first response, rehabilitation, and reconstruction),[26] whereas the demand for liquidity is relatively more significant in the immediate aftermath of a disaster. See Figure 2.

Figure 2: Temporary Dimension of the Need for Post-Disaster Resources



*Time of processes vary according to the magnitude of the event.
**Recovery includes rehabilitation and reconstruction

First response (1-3 months)*:)*: In relative terms, the financing of humanitarian assistance and first response actions requires immediate liquidity and fewer resources than the other two stages.

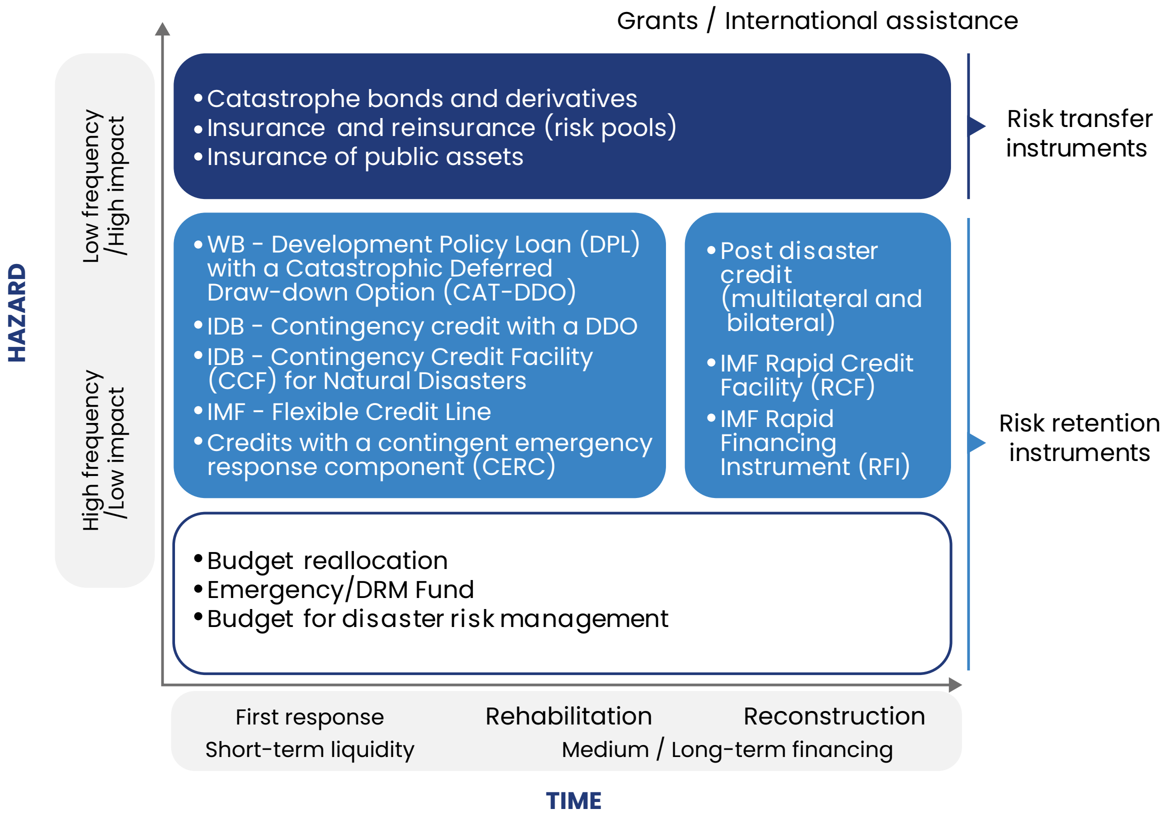
Rehabilitation (3-6 months)*: requires more resources compared to immediate care, but less relative to the liquidity needs for reconstruction. Activities are financed for the temporary re-establishment of services that allow the population to resume functions and productive activities.

Reconstruction (6-24 months) *: Requires the highest level of resources compared to the previous two stages, but it can be managed with more time, since the number of resources requires strategic planning with a focus on prevention and reduction of future risks.

[26] The stages of rehabilitation and reconstruction are included in the term recovery.

The Global Facility for Disaster Reduction and Recovery (GFDRR)[27] proposes using a layered financing strategy to respond to post-disaster needs. The Strategy's financial instruments can be of two types: (i) retention, where the Government assumes the costs of damages and losses; and (ii) transfer, where the Government transfers the costs of damages and losses to a third party. *See Figure 3.*

Figure 3: Sovereign Disaster Risk Financing Strategy



Source: Adapted from (i) "Financial Protection Against Disasters" (World Bank, 2014a); and "Sovereign Climate and Disaster Risk Pooling" (World Bank, 2016).

Prioritized actions in the short and medium-term:

Analyze financial instruments used for disaster risk management. According to its functions, the DGCP collects and analyzes historical information on financial instruments used for post-disaster response. In line with a "Layered Financing Strategy," to date the instruments used are of the risk retention type, recommended mainly for dealing with high frequency and low severity events. This Strategy seeks to implement financial instruments comprehensively, addressing the various needs resulting from the impact of disasters. See Table 1.

[27] "Financial Protection Against Disasters". World Bank, 2014a.

Table 1: Financial Instruments and Mechanisms Implemented by SEFIN to respond to the COVID-19 emergency, within the framework of Article 8 of Legislative Decree No.33-2020 and article 2 of Legislative Decree No.92-2020.

Instrument and Mechanism	Features
Reallocation of the Honduras Government Revenue and Expenditure Budget	Executive Decree PCM-020-2020 establishes a series of measures for austerity and containment of spending in all public sector institutions. It reallocates budget items to assign at least 2% of the total Honduras Government Revenue and Expenditure Budget for the 2020 fiscal year towards financing the operating expenses and investment of the institutions carrying out logistics to attend to and mitigate the effects of COVID-19 and other priority and urgent procedures.
Budget Reallocation or Re-assignment of Available External Resources	Mechanism implemented after the declaration of a State of Emergency to finance response actions. It entails the reorganization of government priorities reflected in the annual budget. Its frequent use can negatively affect the achievement of development goals. • **Reallocation of the Portfolio of Projects in Execution:** Through Executive Decree PCM-046-2020, the Secretary of Finance was authorized to formalize before the Central American Bank for Economic Integration (CABEI) and the Inter-American Development Bank (IDB) the partial redistribution of available resources from the undisbursed balances of the current investment loan portfolio (up to a total amount of US$64.9 million) to face the effects of the humanitarian and health emergency in the country. This measure required the reformulation of the National Investment Program for the coming years. • **Credits that have a Contingent Emergency Response Component:** Honduras has seven active investment loans, granted by the World Bank (WB), and six of them include a Contingent Emergency Response Component (CERC)[28] that allows the country to reallocate resources from these operations to finance interventions in response to an eligible event[29]. The WB activates this mechanism at the request of SEFIN. The reallocated amount depends on the availability of uncommitted resources, the needs of the emergency care plan given the eligible event, and the fulfillment of the development objective of the investment loan[30].

[28] Contingent Emergency Response Component

[29] An eligible event is an event that has caused or is likely to cause adverse economic effects and/or social impacts resulting from natural phenomena, including health emergencies. World Bank, 2014b.

[30] As of November 25, 2020, the total amount of resources available among the 7 loans was US$303.3 million.

Instrument and Mechanism	Features
Direct Contracting of Internal Loans	• **Special Moratorium Agreement for the Payment of Capital and Interest Owed to the Central Bank of Honduras:** : Mechanism implemented in which the payment of the debt service is deferred from May to December 2020 to strengthen prevention and control actions in case of COVID-19 infections. • **Credit Agreement between the Central Bank of Honduras and the Government of the Republic of Honduras:** Mechanism that grants a US$143.3 million loan, which is a reallocated credit from funds granted by the IMF to the Central Bank of Honduras.
National Fund for Preparedness and Response (FONAPRE)	Budgetary space through which resources are redirected from various sources towards emergency care. It does not have annually allocated resources and cannot be accumulated.
Contingent Credit	• **Contingent Credit Line, or loan with a deferred disbursement option in the event of catastrophes (Cat DDO Loan):** Honduras activated a US$119 million contingent credit line with the World Bank to finance its response to the COVID-19 health crisis. This operation became effective in April of 2020 through the approval of the Legislative Assembly, and was fully disbursed. Honduras also had a similar instrument (contingent credit line) with the Inter-American Development Bank for the amount of US$100 million.
Post Disaster Credit	• During the declaration of the COVID-19 Emergency, Honduras managed loans to complement national efforts for the preven- tion, containment, and treatment of COVID-19. The total amount of the three loans acquired was US$370 million (US$20 million with the World Bank and US$350 million with the Central Ameri- can Bank for Economic Integration)[31].
Placement of Bonds in the National Market	• An additional increase to the internal debt ceiling through the placement of debt securities in the domestic market for a maxi-mum amount of US$292.4 million. The debt securities were used to finance the Honduras Government Revenue and Expenditure Budget for the year 2020 and other unavoidable requirements necessary to cover the fiscal deficit and attend to the effects caused by the COVID-19 emergency.

[31] SEFIN, 2020. http://www.sefin.gob.hn/fondos-externos

Instrument and Mechanism	Features
International Support (Management of Non-Reimbursable Cooperation and/or Technical Assistance)	• Honduras managed Non-Reimbursable Cooperation and/or Technical Assistance with different Agencies to attend to the State of Emergency declared due to the COVID-19 health crisis.

Analyze financial instruments of retention and transfer of risk. The optimal combination varies according to the magnitude and frequency of the events to which the country is exposed, the temporality of the need for resources, and the macro-fiscal conditions. The DGCP and the General Directorate of Budget (DGP) are coordinating, with the members of SINAGER, the definition of a financial management policy for systemic risk. They will implement the necessary mechanisms to have an optimal combination of financial instruments for post-disaster response.[32]

Evaluate financial instruments of risk transfer. In this sense, the development of the financial sector is also a key element in implementing a layered strategy. Currently, Honduras has an incipient insurance and reinsurance market. Strengthening the financial sector will increase the options of risk transfer instruments available for the private sector (such as agricultural insurance) and the state (insurance of public goods).[33]

SAVING MONEY THROUGH DISASTER RISK FINANCE: Without Disaster Risk Finance disaster response is too expensive.

[32] Articulated to the strategic guidelines 1 and 3 of the specific objective 3 of the PEGIRH. Decree No. PCM-051-2013.
[33] The Law of Insurance and Reinsurance Institutions, applicable to all-natural or legal persons that commercialize or intermediate in Honduran territory, regulates the organization and operation of insurance and reinsurance activities in Honduras. Decree No.22-2001.

III.3. Reducing disaster risk through public investment

Specific Objective: Reduce current and future risk by incorporating risk analysis and adaptation to climate change in public investment.

The actions implemented under this strategic area should consolidate a public investment model that incorporates disaster risk analysis and adaptation to climate change in public investment projects at the national and local level, as well as the formulation of a national program for disaster risk reduction in public investment and land use planning.[32] SEFIN, in coordination with COPECO and the members of SINAGER, will identify actions, products, responsible parties, result indicators, and goals in the Implementation Plan.

Prioritized actions in the short and medium-term:

Incorporate disaster risk analysis and climate change adaptation into local investment projects. The Honduran National Public Investment System (SNIPH) incorporates disaster risk analysis in pre-investment (project formulation). However, this is not mandatory for local governments and does not apply to the entire public investment project cycle. Article 58 of the Organic Law of the Budget provides powers to the General Directorate of Public Investment (DGIP) to issue technical standards and guidelines to evaluate and formulate public investment programs and projects.

In 2014, Article 77 of the budget regulations made mandatory the application of location and shielding of projects for public investment against the risks of disasters due to natural phenomena. The following year, SEFIN approved and published the second edition of the "General Methodological Guidelines for the Formulation and Evaluation of Public Investment Programs and Projects" (Guidelines) in collaboration with COPECO. Consequently, through Article 112 of the Budgetary Execution Regulations, all public sector institutions that execute projects either with national and/or external sources are mandated to formulate and register public investments following the procedures established in the Guidelines.

The Guidelines establish procedures and instruments for the incorporation of disaster risk analysis in the identification of project ideas, preparation of a technical profile, pre-feasibility analysis, feasibility analysis, and project design. DGIP will strengthen and continue to provide technical support to public sector institutions to achieve a successful implementation of the legal framework at national and local levels.

[34] Articulated to the strategic guidelines 2 and 4 of the specific objective 3 of the PEGIRH. Decree No. PCM-051-2013.

Establish a monitoring and evaluation methodology for public investment. The application of construction standards that incorporate risk analysis is an ex-ante risk management measure. SEFIN, in compliance with its functions, will coordinate with COPECO and the competent bodies the formulation and implementation of a monitoring methodology to incorporate risk analysis in public investment. To this end, technical and institutional mechanisms will be designed to strengthen and improve risk analysis in sectoral and institutional public investment at the territorial level.

THE BENEFITS OF TIMELY RECONSTRUCTION:
Without Disaster Risk Finance fast reconstruction does not happen.

III.4. Using the public budget efficiently and transparently in disaster risk management

Specific Objective: Strengthen efficiency through budgetary tools in the use of public resources linked to disaster risk management.

The actions implemented under this strategic area will increase efficiency and transparency in the use of public resources. SEFIN, in coordination with COPECO and SINAGER members, will identify actions, products, responsible parties, result indicators, and goals in the Implementation Plan.

Prioritized actions in the short and medium-term:

Design a budgeting tool for the prospective, corrective, and reactive processes of GRD and CC. The Organic Budget Law aims to regulate and harmonize the public sector's financial administration to achieve compliance with the State's goals and objectives through the efficient management of public resources. Under this framework, SEFIN -- through the DGP -- is responsible for designing budgetary tools to monitor public spending on GRD. To date, Honduras has not yet implemented a budget tool for GRD. Its design and implementation, under the results-based approach paradigm, will promote transparency and accountability by linking the budget to the achievement of established objectives.

Establish a methodology for monitoring and evaluating public expenditure on GRD and CC. The budget tools used in the budget cycle provide information for the analysis and evaluation of the execution of budgets approved in the annual public budget law and future public policy decisions. A GRD budget tool will provide mechanisms for identifying, managing, monitoring, and analyzing spending related to GRD measures at each stage of the budget cycle, at the national and local levels. The use of budget tools strengthens transparency and accountability, allows for collecting expenditure information, and facilitates the evaluation of the use of public resources35 to promote greater efficiency in public financial management.

[35] Articulated to the strategic line 54 of the specific objective 3 of the PEGIRH. Decree No. PCM-051-2013.

III.5. Strengthening Institutions for Disaster Risk Finance Management

Specific Objective: Institutionalize Disaster risk finance management in SEFIN and the members of SINAGER.

The actions implemented under this strategic area will streamline and consolidate the coordination of SEFIN with COPECO and the members of SINAGER for the implementation of disaster risk finance management. SEFIN, in coordination with COPECO and the members of SINAGER, will identify actions, products, responsible parties, result indicators, and goals in the Implementation Plan.

Prioritized actions in the short and medium-term:

Strengthen technical capacities. A comprehensive approach to disaster risk finance management requires that officials get trained in the development of methodologies for the assessment of contingent liabilities, the characteristics of financial instruments and mechanisms within the framework of the country's risk profile, risk reduction measures in the implementation of public investment projects, and the conceptual framework for the design of budgetary tools for monitoring and tracking GRD expenditure. SEFIN is developing these capacities defined by the Directorate within the framework of its competencies.

Establish institutional framework. The approval and publication of the Strategy demonstrates an essential step in SEFIN's commitment to achieve greater resilience of public finances against the risk of disasters and public health emergencies.

IV. Complementary Activities

A "Disaster Risk Finance Management Strategy Implementation Plan" is required to achieve the objective of Strengthening fiscal resilience and financial response capacity to disaster risk associated with natural phenomena and public health emergencies. SEFIN will lead the preparation of the Implementation Plan in coordination with COPECO and the members of SINAGER. The Plan will define specific implementation responsibilities such as activities, products, performance indicators, and results for periodic monitoring and evaluation.

The Strategy is a dynamic instrument whose actions, products, and results are readjusted based on the country's needs and on achievements obtained during implementation. The monitoring and evaluation mechanisms of the strategic areas will allow for adjusting the implementation plan according to the country's priorities.

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CCRIF SPC The Caribbean Catastrophe Risk Insurance Facility

Canada

GFDRR Global Facility for Disaster Reduction and Recovery

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