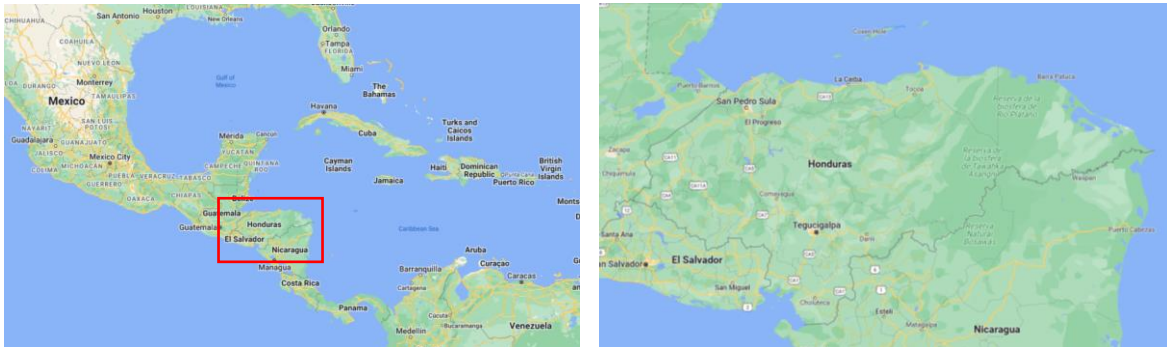


SUBMISSION BY HONDURAS CASE STUDY ON FINANCING LOSS AND DAMAGE

1. Following the invitation by the Transitional Committee (TC) to provide submissions of case studies to inform its discussions at its second meeting (TC2) under its workplan as contained in document TC1/2023/3/Rev.3, Honduras welcomes the opportunity to present the following case study.

Context and Vulnerability

2. Honduras is a country located in Central America, surrounded by the Caribbean Sea (Atlantic) to the north and east, and the Gulf of Fonseca (Pacific) to the south. Honduras is a country vulnerable to various natural threats, which caused 82 disasters between 1970 and 2019, out of which 67 were hydrometeorological or climate related. Most notably are the disasters generated by hurricanes Fifi in 1974 and Mitch in 1998, causing 8,000 and 14,000 deaths, respectively¹.



Source: Google Maps

3. Between 1998 and 2017, Honduras had consistently been recognized in the top 3 most affected and vulnerable countries to extreme weather events in the world by the GermanWatch Global Climate Risk Index².
4. The Economic Commission for Latin America and the Caribbean estimated that in 2019, 52.1% of the Honduran population was living in poverty, out of which 19,9% were living in conditions of extreme poverty.
5. For 2020, a 7.4% drop in Honduras' Gross Domestic Product (GDP) was expected due to the effects of the COVID-19 pandemic.

¹ Economic Commission for Latin America and the Caribbean (ECLAC), Interamerican Development Bank (IDB). May 2021. [“Evaluación de los efectos e impactos de la tormenta tropical Eta y el huracán Iota en Honduras”](#).

² GermanWatch. 2018. Global Climate Risk Index 2019.

Hurricanes Eta and Iota

6. In 2020, the region experienced the most active hurricane season in history, recording a total of 30 storms, more than double the annual average. Of the 30 storms, 13 were hurricanes, with 6 being classified as major hurricanes. Hurricanes Eta and Iota were formed on 31 October and 13 November, respectively³.
7. Eta reached a category 4 hurricane during its formation. When it reached Honduran territory, it has weakened to a tropical storm, varying in intensity and leaving an estimated 380 to 635 mm of rain in the entire country. During its formation, Iota reached hurricane 4 and 5 categories. Upon hitting land, the hurricane weakened. Nonetheless, it is estimated to have accumulated a total of 500 to 750 mm of rain in the northern part of the country⁴.

Assessment of the Effects of Eta and Iota in Honduras

8. The Economic Commission for Latin America and the Caribbean (ECLAC) carried out a study estimating the effects and impacts of Eta and Iota in Honduras, through the methodological application of its manual for the evaluation of the socioeconomic and environmental impacts of disasters, known as the “Damage and Loss Assessment Methodology” (DALA).
9. The total estimated effects caused by tropical storm Eta and Hurricane Iota were approximately USD 2,104.7 million (Table 1). The damages represented 44% of the total effects, the losses represented 52% and the additional costs 4%. The private sector suffered 69% of the total damages and 97% of the total losses. The additional costs are the only dimension in which the public sector outperformed the private sector.

Total Effects of Eta and Iota (in millions of USD)			
	Public	Private	Total
Damages	282.34	633.68	916.02
Losses	31.95	1,062.01	1,093.97
Additional Costs	51.26	43.43	94.69
Total	365.56	1,739.12	2,104.67

Source: ECLAC (2021)

Table 1: Total Effects of Eta and Iota

³ Economic Commission for Latin America and the Caribbean (ECLAC), Interamerican Development Bank (IDB). May 2021. [“Evaluación de los efectos e impactos de la tormenta tropical Eta y el huracán Iota en Honduras”](#).

⁴ Idem.

10. Generally, the majority of the effects of Eta and Iota were concentrated in the productive sector, representing 68% of the total effects, followed by the social sector with 18% (Table 2). Within the productive sector, 99.9% of the total effects occurred in the private sector. Meanwhile, 80% of the total effects in the infrastructure sector occurred in the public sector.

Total Effects of Eta and Iota by Sector (in millions of USD)			
Sectors	Public	Private	Total
Social	117.15	261.57	378.73
Productive	0.97	1,433.51	1,434.48
Infrastructure	176.13	44.03	220.17
Environment	71.30	0.00	71.30
Total	365.56	1,739.12	2,104.67
<i>Source: ECLAC (2021)</i>			

Table 2: Total Effects of Eta and Iota by Sector

11. The effects on the productive sector represented 93% of the total losses and 44% of the total damages. The most affected productive subsectors were commerce and industry, with 78% of the estimated damages and 62% of the losses, and agriculture and livestock with 18% of the damages and 27% of the losses. The losses and damages in these subsectors were strictly from the private sector. Within the social sector, the housing subsector represented 74% of the damages (Table 3). When aggregated, the results in all these subsectors showcase the human dimension of the event: **the sources of income of families and the places where they live were the most affected.**

12. The effects on infrastructure represented 10% of the total. The transportation subsector was the most affected, with 62% of the damages, 89% of the losses and 96% of the additional costs (Table 3).

Total Effects of Eta and Iota by Subsectors (in millions of USD)						
Sectors / Subsectors	Damages	Losses 2020	Losses 2021	Total Losses	Additional Costs	Total
Social	318.54	1.01	0.69	1.70	58.50	378.73
Education	32.92	0.00	0.00	0.00	22.30	55.22
Health	50.62	0.89	0.44	1.33	5.82	57.77
Housing	234.99	0.12	0.24	0.36	26.22	261.57
Cost of the emergency	0.00	0.00	0.00	0.00	4.16	4.16
Productive	399.61	791.63	226.02	1,017.66	17.21	1,434.48
Agriculture and livestock	70.78	204.41	69.12	273.53	12.60	356.91
Tourism	19.11	78.98	29.21	108.18	0.00	127.29
Commerce and industry	309.73	508.24	127.70	635.94	4.61	950.27
Infrastructure	134.56	34.42	32.24	66.66	18.95	220.17

Electricity	4.40	5.90	0.00	5.90	0.24	10.54
Water and sanitation	46.94	0.32	0.00	0.32	0.40	47.67
Transportation	82.77	27.31	32.24	59.55	18.30	160.62
Telecommunications	0.44	0.89	0.00	0.89	0.00	1.33
Environment	63.30	8.00	0.00	8.00	0.00	71.30
Total	916.02	835.06	258.95	1,094.01	94.65	2,104.67

Source: ECLAC (2021)

Table 3: Total Effects of Eta and Iota by Subsectors

Assessment of the Impacts of Eta and Iota

13. The impacts of both storms covered the entire national territory, directly and indirectly affected 3.9 million people (more than 40% of the total population). The primary affected population included 95 deceased, 24 injured, 10 missing, 437,212 people evacuated and 96,640 people sheltered⁵.

International Assistance and Humanitarian Aid

14. In the immediate days and weeks following both disastrous events there was a mobilization of all sectors, including the private sector and the international community. The Honduran Council of Private Enterprise (COHEP) collected an estimated USD 49,000.00 in monetary donations and coordinated the delivery of in-kind donations by more than 70 companies and the Inter-American Development Bank (IDB)⁶.

15. By 1 December 2020, Honduras had received more than USD 7 million in international aid by several countries and organizations, and approximately a further USD 11.4 million in pledged commitments by more countries and organizations (Table 4). The committed resources were channeled through different institutions and programs, such as the World Food Program, the Red Cross, aiding with emergency shelters, food, supplies of critical assistance and protection for the most vulnerable communities.

Summary of International Aid Received and Pledged By 1 December 2020	
Status	USD
Received	7,058,433.50
Pledged	11,426,465.44
Total International Aid by 1 December 2020	18,484,898.94

Source: ECLAC, 2021 citing data from the Ministry of Finance

Table 4: Summary of International Aid Received and Pledged

⁵ Economic Commission for Latin America and the Caribbean (ECLAC), Interamerican Development Bank (IDB). May 2021. [“Evaluación de los efectos e impactos de la tormenta tropical Eta y el huracán Iota en Honduras”](#).

⁶ Economic Commission for Latin America and the Caribbean (ECLAC), Interamerican Development Bank (IDB). May 2021. [“Evaluación de los efectos e impactos de la tormenta tropical Eta y el huracán Iota en Honduras”](#).

Financing Recovery, Rehabilitation and Reconstruction

16. In order to address the emergency caused by both climatic events, the Government of Honduras made efforts to seek financial resources from various sources and financial instruments (Table 5). Between 2020-2022, the Government expended USD 124.91 million from its National Treasury to aid in the recovery, rehabilitation and reconstruction process after Eta and Iota, representing 49% of the total accrued figures. Domestic credit was the second highest source of financing, with a total of USD 75.19 million, representing 29% of the total. This was followed by external credit, including loans undertaken with multilateral development banks, with a total of USD 42.32 million, 16% of the accrued figures.

Sources of Financing within the Public Budget (Ex-Post) (in millions of USD)								
Source	2020		2021		2022		Total	
	Budgeted	Accrued	Budgeted	Accrued	Budgeted	Accrued	Budgeted	Accrued
External Credit	34.55	24.98	17.36	17.34	0.00	0.00	51.91	42.32
National Treasury	22.86	7.10	119.04	105.47	12.34	12.34	154.24	124.91
Donations	0.50	0.00	3.78	3.69	0.00	0.00	4.28	3.69
Domestic Credit	0.00	0.00	76.50	75.19	0.00	0.00	76.50	75.19
Budgetary Support	0.00	0.00	10.56	10.48	0.00	0.00	10.56	10.48
Total	57.91	32.09	227.24	212.17	12.34	12.34	297.49	256.60

Source: Ministry of Finance

Table 5: Sources of Financing within the Public Budget (Ex-Post)

17. The resources within the public budget were allocated to address various aspects of the emergency. Between 2020-2022, financial assistance to families affected by the hurricanes represented 44% of the resources for emergency attention. This was followed by rehabilitation and repair of infrastructure damage, representing 30% of the resources.

Emergency Attention Categories Financed by the Government (in millions of USD)				
Category	2020	2021	2022	Total
Rehabilitation and Repair of Infrastructure Damage	11.51	0.13	9.69	21.34
Financial Assistance	31.24	0.06	0.00	31.30
Housing Cleaning and Restoration	1.89	0.02	0.00	1.91
Food Supply	9.03	0.00	0.00	9.03
Rescue and Evacuation Activities	4.24	0.00	0.00	4.24
Support for Farmers	0.00	0.01	2.65	2.66
Total	57.91	0.23	12.34	70.48

Source: Ministry of Finance

18. The resources allocated to the emergency by the Government between 2020-2022 only represent 12% of the estimated losses and damages at the national level, leaving an 88% gap in financing, the majority of which belongs to the private sector/families⁷.

Lessons Learned

19. Honduras deeply appreciates the donations and international humanitarian aid provided by countries and organizations in the immediate aftermath of both Eta and Iota, which brought food and shelter to thousands of people who were directly and indirectly affected by the storms. It is also clear that much more is needed in the process rehabilitation, recovery and reconstruction after such devastation.
20. As showcased in the estimated economic damages and losses by sectors and subsectors, housing, commerce and industry, and agriculture and livestock reported the highest figures. Integrally, this comes to mean that the sources of income of families and the places where they live were the most affected. This placed an additional economic burden on families, 52.1% of which were living in poverty, and already facing the hardships that the COVID-19 pandemic had on their incomes. The debt capacity of families and individuals is low.
21. Continued impacts in the agriculture and livestock sectors by extreme weather events like Eta and Iota become an economic burden for the State, as this leads to agricultural subsidy policies.
22. The levels of public indebtedness are defined by the ceilings for contracting loans, the deficit level and the levels of debt sustainability that are reflected in the country's macroeconomic framework. These factors limit the amount of external and domestic credit or debt that the country can undertake. As a result, the government had to redefine the purpose and prioritized areas of the loans that were planned with multilateral banks (World Bank, Inter-American Development Bank). Loans that were initially planned to go towards other sustainable development areas had to be redirected to address the emergency, rehabilitation, recovery and reconstruction after both Eta and Iota. This is a clear example of how a country like Honduras is forced into climate-induced debt, while shifting priorities from sustainable development.
23. Given Honduras' geographical location, the country will always be in the pathway of extreme weather events. The effects of these events have a negative impact on our development. Creating true adaptive capacities and climatic resilience becomes increasingly harder as these extreme weather events become more frequent and more intense. Increased funding that does not lead to further debt is necessary to create these adaptive capacities, and to be able rehabilitate, recover and reconstruct in a truly resilient manner.

⁷ Source: Ministry of Finance