

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HONDURAS

**CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP):
DECARBONIZATION AND SUSTAINABILITY IN THE
JUST ENERGY TRANSITION OF HONDURAS
(HO-O0015)**

**IDB CLIMA: DECARBONIZATION OF THE NATIONAL ELECTRIC POWER
COMPANY (ENEE) AND SUPPORT FOR FINANCIAL SUSTAINABILITY
(HO-L1245) AND (HO-G1265)**

**IDB CLIMA NONREIMBURSABLE FINANCING: DECARBONIZATION
OF THE NATIONAL ELECTRIC POWER COMPANY (ENEE) AND SUPPORT
FOR FINANCIAL SUSTAINABILITY
(HO-J0003)**

LOAN AND NONREIMBURSABLE FINANCING PROPOSAL

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OPTIONAL	
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ABBREVIATIONS

BESS	Battery Energy Storage System
CCLIP	Conditional Credit Line for Investment Projects
CCMR	Climate change monitoring and reporting
CIF	Climate Investment Fund
CND	Centro Nacional de Despacho (National Dispatch Center)
CREE	Comisión Reguladora de Energía Eléctrica (Electric Power Regulatory Committee)
DMA	Dirección de Medio Ambiente (Office of the Environment)
ENEE	National Electric Power Company
ESMS	Environmental and Social Management System
ESPF	Environmental and Social Policy Framework
ESRS	Environmental and Social Review Summary
GHG	Greenhouse gases
IMF	International Monetary Fund
KPI	Key performance indicators
LGIE	Ley General de la Industria Eléctrica (Electricity Industry Act)
MDB	Multilateral Development Banks
MEP	Monitoring and Evaluation Plan
MRV	Monitoring, Reporting, and Verification
NCRE	Nonconventional renewable energy
NDCs	Nationally determined contributions
NTS	National Transmission System
O&M	Operation and maintenance
PCR	Project completion report
PCU	Program coordination unit
REM	Regional electricity market
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SCX	Strategic Climate Fund
SEFIN	Ministry of Finance
SEN	Ministry of Energy
SERNA	Ministry of Natural Resources and the Environment
SESA	Strategic environmental and social assessment
SESMF	Strategic Environmental and Social Management Framework
SIAFI	Integrated Financial Management System
SIEPAC	Sistema de Interconexión Eléctrica para los Países de América Central [Central American Electric Interconnection System]
SIN	National Interconnection System
SPV	Solar photovoltaic
SREP	Scaling Up Renewable Energy Program
T&D	Transmission and distribution
tCO ₂ e	Tons of carbon dioxide equivalent
TSC	Tribunal Superior de Cuentas (Superior Court of Accounts)
UEPEX	International Projects Executing Units
VRE	Variable renewable energy

**PROJECT SUMMARY
HONDURAS**

**CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP): DECARBONIZATION AND SUSTAINABILITY IN THE JUST ENERGY TRANSITION OF HONDURAS
(HO-00015)**

**IDB CLIMA: DECARBONIZATION OF THE NATIONAL ELECTRIC POWER COMPANY (ENEE) AND SUPPORT FOR FINANCIAL SUSTAINABILITY
(HO-L1245) AND (HO-G1265)**

**IDB CLIMA NONREIMBURSABLE FINANCING: DECARBONIZATION OF THE NATIONAL ELECTRIC POWER COMPANY (ENEE)
AND SUPPORT FOR FINANCIAL SUSTAINABILITY
(HO-J0003)**

Financial Terms and Conditions								
Borrower: Republic of Honduras								
Executing agency: National Electric Power Company (ENEE)								
Source	CCLIP Line		1st Operation			OC FFF ^(a)	OCC Concessional	SCX-SREP ^(b) Reimbursable Funding
	Amount (US\$ million)	%	Amount (US\$ million)	%				
IDB (OC-Regular):	200	100	32.5	65	Amortization period:	25 years	40 years	30 years
IDB (OC-Concessional):			17.5	35	Disbursement period:	5 years		
Total:	200	100	50	100	Grace period:	5.5 years ^(c)	40 years	10.5 years
SCX-SREP Reimbursable Financing: ^(b)	-	-	5.10	8.50	Interest rate	SOFR-based	0.25%	0.98% ^(b)
SCX-SREP Nonreimbursable Financing (HO-G1265): ^(b)	-	-	2.0	3.3	Credit fee:	^(d)	N/A	N/A
Local contribution:	-	-	2.68	4.5	Inspection and supervision fee:	^(d)		
Total:	200	100	59.78	100	Weighted average life (WAL):	15.25 years		
IDB CLIMA Nonreimbursable Financing (HO-J0003): ^(e)	-	-	2.5	5% of the Honduras IDB loan	Currency of approval:	U.S. Dollars (US\$)		
Project at a Glance								
<p>General objective of the Conditional Credit Line for Investment Projects (CCLIP): Contribute to the decarbonization of the electric power sector, enhance citizens' access to electricity services, and bolster the sector's financial and operational sustainability through investments that lead to a sustainable, reliable, and efficient electric power supply.</p> <p>General objective of the first individual loan operation: Support decarbonization and climate resilience of the electricity generation matrix, improve the financial sustainability of the electric power sector, and strengthen capacities that allow for issuing debt on the green capital markets to achieve climate commitments. The specific objectives are to: (i) increase the capacity to generate solar photovoltaic (SPV) energy using a climate-change mitigation approach; (ii) improve financial and operational efficiency and quality of electricity service; (iii) bolster entities' capacities to design and run projects using climate change mitigation and adaptation criteria; and (iv) enhance sector capacities to monitor and report actions and investments linked to climate change mitigation and adaptation in line with bond market best practices.</p> <p>This program is a pilot operation under the IDB CLIMA Pilot Program^(e) that includes: (i) an investment loan with Ordinary Capital resources; and (ii) IDB CLIMA nonreimbursable financing with resources from the IDB Grant Facility equivalent to 5% of the Ordinary Capital loan proceeds^(f) (paragraph 2.3), provided that fulfillment of the targets for the Key Performance Indicators (KPIs) is independently verified (paragraph 3.12).</p>								
<p>Special contractual conditions precedent to first disbursement of the financing: (i) a subsidiary agreement has entered into force between the borrower and the executing agency for transferring loan proceeds and other execution obligations; (ii) the executing agency has approved and implemented the program Operating Regulations in the terms previously agreed upon with the Bank, which will include as annexes the Strategic Environmental and Social Management Framework (SESMF), the Environmental and Social Management System (ESMS), and the Environmental and Social Action Plan; (iii) the executing agency has selected a general coordinator, a technical coordinator, an evaluation and monitoring specialist, a finance specialist, a procurement specialist, a contract management specialist, an environmental specialist, and a social specialist, in keeping with the profiles described in the program Operating Regulations for the program coordination unit (PCU); (iv) the executing agency has created a photovoltaic and battery storage project development team and has designated, among the executing agency staff, a team with at least two solar energy and storage experts, in accordance with the profiles described in the program Operating Regulations; (v) a team has been created for executing institutional strengthening and monitoring, reporting, and verification (MRV) (Components 2 and 3) with the designation of at least two full-time experts; (vi) a hydrology and climate modeling unit, which has experts in hydrology, geology, climate scenarios, solar and wind energy resources, as well as hydroclimatological station maintenance, has been established at ENEE; and (vii) the Office of the Environment has included one climate adaptation professional on its team with the profile described in the program Operating Regulations (paragraph 3.4).</p> <p>See special environmental and social contractual conditions of execution in Annex B of the Environmental and Social Review Summary (ESRS) (required link 3).</p>								
<p>Conditions precedent to disbursement of the IDB CLIMA nonreimbursable financing:^(e) The borrower has submitted to the Bank: (i) information regarding the bank account for depositing the IDB CLIMA Grant proceeds; (ii) the independent verification report on the key performance indicators (KPIs) prepared by the Reviewer, confirming 100% compliance with the three KPI targets; (iii) the indicative action plan mentioned in paragraph 3.17; and (iv) evidence that the project's climate and biodiversity financing represents at least 60% of the IDB Ordinary Capital loan amount, according to the Bank's methodology (paragraph 3.15). See the additional requirements of the IDB CLIMA Pilot Program in Section III. C.</p>								
Exception to Bank policies: None.								

Strategic Alignment							
Objectives: ^(g)	O1 <input checked="" type="checkbox"/>		O2 <input checked="" type="checkbox"/>			O3 <input checked="" type="checkbox"/>	
Operational focus areas: ^(h)	OF1 <input checked="" type="checkbox"/>	OF2-G <input checked="" type="checkbox"/> OF2-D <input checked="" type="checkbox"/>	OF3 <input checked="" type="checkbox"/>	OF4 <input type="checkbox"/>	OF5 <input type="checkbox"/>	OF6 <input checked="" type="checkbox"/>	OF7 <input checked="" type="checkbox"/>

- ^(a) Under the terms of the Flexible Financing Facility (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.
- ^(b) The program to promote renewable energy in low-income countries, Scaling up Renewable Energy Program (SREP), under the Strategic Climate Fund (SCX) of the Climate Investment Funds (CIF). The CIF was approved pursuant to document GN-2604-3 and its Financial Procedures Agreement was signed with the World Bank on 17 February 2011. In accordance with the SREP Financing Modalities, 2.5% of the principal will be repaid every six months from year 11 to year 30.
- ^(c) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan, or the last payment date as documented in the loan contract.
- ^(d) The credit fee and 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 applicable policies.
- ^(e) The Board of Executive Directors of the Bank approved, through Resolution DE-67/23, an amendment of the Regulations of the IDB Grant Facility in order to finance the IDB CLIMA Pilot Program. Pursuant to Resolution AG-11/23. The Board of Governors of the Bank expressed its support for the financing of the IDB CLIMA Pilot Program.
- ^(f) Should there be a reduction in the IDB Ordinary Capital loan amount during the original disbursement period or its extensions, the IDB CLIMA nonreimbursable financing would be reduced by the same proportion to maintain the 5%.
- ^(g) O1 (Reduce poverty and inequality); O2 (Address climate change); and O3 (Bolster sustainable regional growth).
- ^(h) OF1 (Biodiversity, natural capital, and climate action); OF2-G (Gender equality); OF2-D (Inclusion of diverse population groups); OF3 (Institutional capacity, rule of law, and citizen security); OF4 (Social protection and human capital development); OF5 (Productive development and innovation through the private sector); OF6 (Sustainable, resilient, and inclusive infrastructure); OF7 (Regional integration).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

- 1.1 **Macroeconomic context.** In the wake of the strong post-pandemic economic recovery in 2021 (12.5%), growth slowed to 4.2% in 2022 and 3.5% in 2023. This drop reflects diminished dynamism in the growth of remittances, which was 5.6% in 2023 as compared to 28.6% in 2021 and 17.9% in 2022. Moreover, goods exports fell 2.7% in 2023 due to decreased external demand for goods for processing, i.e., textile articles, while growth in imports came in at 0.6% below what was seen in 2022 (19.1%) due to fewer purchases of inputs for the textile industry. Economic growth in 2024 is expected to reach 3.6% according to the International Monetary Fund (IMF) and national authorities. As of June 2024, the monthly economic activity index increased 3.9% year-on-year, in comparison to 4.1% in the same period in 2023, which is consistent with projections for the year.
- 1.2 The [2010-2038 Country Vision](#) seeks to foster inclusive economic growth by strengthening employment skills, improving infrastructure, accessing financing and climate change resilience. The [Energy Roadmap 2050](#) sets the target of achieving an 80% share of renewable energy in electricity generation by 2038. Furthermore, in its 2021 updated [Nationally determined contributions](#) (NDCs), the government of Honduras committed to a 16% reduction in its carbon emissions by 2030 with respect to the business as usual scenario.
- 1.3 **Institutional framework.** The Ministry of Finance (SEFIN) is responsible for formulating, coordinating, executing, and evaluating policies related to finance and the nation's General Budget of Revenues and Expenditures. The Ministry of Natural Resources and the Environment (SERNA) is charged with formulating, coordinating, and evaluating policies regarding the protection and use of water resources, renewable energy, mining activity, and exploration and use of fossil fuels. In 2014, the [Ley General de la Industria Eléctrica \[Electricity Industry Act\] \(LGIE\)](#) changed the vertically integrated model that existed under the National Electric Power Company (ENEE), seeking economic efficiency through its restructuring, enabling private sector participation in the transmission and distribution (T&D) segments. According to the LGIE, the Ministry of Energy (SEN) formulates, plans, coordinates, and evaluates the electric power subsector strategies; it also prepares performance reports for the electric power sector, including the allocation of subsidies. The Electric Power Regulatory Commission (CREE) acts as regulatory agency through the issuance of regulations, technical standards, and procedures, including the issuance and updating of rates, and bidding processes for the energy and power purchases, and verifies the sector's performance, including supervision of the allocation of subsidies. With the 2022 [LGIE reform](#), the system operator, which until that time was independent and responsible for managing the wholesale market and transmission planning, was integrated into the ENEE as the Centro Nacional de Despacho [National Dispatch Center] (CND). In addition, ENEE was divided into four business units: generation, transmission, distribution, and sales. ENEE is currently a state enterprise that owns the majority of T&D assets, and 20% of installed generation capacity.²

² The private sector owns the remaining 80%.

- 1.4 **Decarbonization of the electricity matrix.** Thanks to the [Law to Incentivize Electric Power Generation with Renewable Resources of 2007 and its reform in 2013](#), the installed capacity of nonconventional renewable energy (NCRE), all of which is in private hands, increased from 7.8% in 2007 to 33.7% in 2023,³ placing Honduras among the top 10 countries with the greatest share of variable renewable energy (VRE).⁴ In 2023, demand for electricity totaled 10,605.5 gigawatt hours. Renewable sources provided 53.7% of the power (hydroelectric 29.9%, solar photovoltaic 9.3%, wind power 7.2%, biomass 4.9%, and geothermal 2.4%), thermal generation provided 44.8%,⁵ and the remaining 1.5% came from regional electricity market (REM)⁶ imports via the Central American Electric Interconnection System (SIEPAC). The increase in the share of NCREs represented an increase in generation costs, due to the incentive structure established at the time the NCRE projects were signed, given the benefits stipulated in the Incentives Law and the price of the renewable technology on the date these contracts were signed (2011-2014). With the enactment of the 2022 Special Law Guaranteeing Electric Power Service as a Public Good for National Security and an Economic and Social Human Right, (i) the fiscal incentives under the Incentives Law and its reform are eliminated, and the expansion of NCREs is regulated, along with convention and thermal generation, through international competitive bidding processes; and (ii) the negotiation of NCRE contracts to date is ordered. Thus, the target of attaining an 80% share of NCREs by 2038 seeks to reduce the cost of generation and strengthen the financial sustainability of ENEE.
- 1.5 **National Transmission System (NTS).** El NTS is the backbone of the country's electric power system and is critical for incorporating VRE in the generation matrix. The system has 2,616 kilometers of transmission lines, including 230-kilovolt, 138-kilovolt, and 69-kilovolt lines, as well as 74 substations.
- 1.6 **Integration with the REM.** Honduras is part of the REM, and via SIEPAC it has connections with Guatemala, El Salvador, and Nicaragua. Nevertheless, the power purchase transactions are limited by the lack of NTS reinforcement.⁷ The National Electricity Transmission Program ([4598/BL-HO](#) and [4599/SX-HO](#), 2018) funds NTS reinforcements, which will enable the northern part of Honduras to access the REM ([optional link 11](#)). The reinforcements are being updated over time and the Regional Operating Entity⁸ has identified new enhancements to ensure future power transactions between Honduras and the REM, the investment in which will total an estimated US\$82.9 million by 2029.
- 1.7 **Distribution system.** The distribution network covers 16 of Honduras' 18 departments and has 25,212 kilometers of medium voltage and 21,434 kilometers of low voltage. As of August 2023, the distribution system was

³ Solar: 17.1%, wind power: 7.9%; biomass: 7.4%, and geothermal: 1.3%. [Optional link 12](#) [1].

⁴ [Optional link 12](#) [2].

⁵ [International Renewable Energy Agency, 2023](#). 97% is privately owned and 100% of imports are from fossil fuels.

⁶ [Optional link 12](#) [3].

⁷ [Optional link 12](#) [4].

⁸ Idem.

operated by the private investor-operator Empresa Energía Honduras. Once the contract terminated in September 2023, ENEE resumed distribution activities.

- 1.8 **Sector challenges.** The Government of Honduras has been strengthening the sector's institutions (paragraph 1.3) and implementing measures to comprehensively address the financial position thereof by providing continuity to the effort undertaken during the sector reform process that was supported by the Bank in the 2014-2017 period. Between 2018 and 2023, thanks to the continuous updating of rates by the CREE and the increase in collection from 95.9% to 97.9%, the income from ENEE's sale of energy increased by 53.8%. In addition, in order to reduce the cost of energy, the Government of Honduras has revised generation contracts,⁹ engaged in ongoing competitive processes for energy and power purchases by means of international public bidding,¹⁰ and built reinforcements in the NTS in order to improve the marketing of energy on the REM and optimize its dispatch (paragraph 1.16).¹¹ Nonetheless, the following challenges persist for achieving sustainability in the sector: (i) climate vulnerability and dependence on fossil fuels in the power matrix; (ii) the sector's low financial and operational efficiency; and (iii) scant production and exchange of information for monitoring, reporting, and verification (MRV) of climate achievements and impacts and for establishing projects that fulfill climate targets ([optional link 15](#)).
- 1.9 **Climate vulnerability and fossil fuel dependence of the electricity matrix.** In 2019, the Global Climate Risk Index¹² classified Honduras as the second most affected country by extreme climate phenomena (1998-2017), with annual average losses of 1.8% of gross domestic product (GDP). Hurricane Mitch in 1998 and Eta/Iota in 2020¹³ caused damages equivalent to 7.8% and 0.8% of GDP,¹⁴ respectively, significantly impacting electric power infrastructure. Furthermore, considering that hydroelectric generation represents 30.6% of installed capacity, and climate models for the country (representative concentration pathway 8.5)¹⁵ project an annual average temperature increase of 1.8°C by 2050 and between 3°C-5.6°C by the end of the century,¹⁶ hydroelectric generation capacity could be reduced,¹⁷ compromising the electric power supply. This dependence exposes the country to supply and price volatility issues, elevating the costs of generation (which represent close to 70% of the electricity rate). Although Honduras has made headway in the integration of NCRE, it still needs to make additional efforts to meet

⁹ The revision of generation contracts represents approximately L 30 billion.

¹⁰ The Bank is supporting the CREE and ENEE with technical assistance ([ATN/OC-19594-HO](#)) for the preparation of bidding documents using international good practice standards.

¹¹ In addition to the works financed under loans [4598/BL-HO](#) and [4599/SX-HO](#), financing is being provided to transmission projects as part of private sector generation projects, and reinforcements are going to be built with the Empresa Propietaria de la Red [Regional Transmission Company].

¹² [Optional link 12](#) [5].

¹³ [Optional link 12](#) [6].

¹⁴ Idem. The impact on electric power infrastructure is estimated to be L 262 million.

¹⁵ [Optional link 12](#) [7].

¹⁶ [Optional link 12](#) [8].

¹⁷ [Optional link 12](#) [9].

- NDC targets, reducing its dependence on fossil fuels and bolstering its resilience to climate change.
- 1.10 **The sector's financial and operational efficiency and service quality.** Between 2016 and 2023, ENEE's debt increased from US\$1.8 billion to US\$3.3 billion, rising from 8% to 10.6% of GDP.¹⁸ This increase was due primarily to the financial terms of the loans, which had high interest rates and short repayment terms, as well as the delays in the fulfillment of payment commitments to the thermal generators due to electricity losses.¹⁹ Although the electric power sector's reform process has improved the flow of revenues and ENEE's financial position (paragraph 1.8), the projected financial flows and debt management, which consider the sector reform actions with a comprehensive approach implemented by the government, indicate that financial sustainability would be achieved in the medium term (five years). With technical assistance from the Bank, ENEE has identified options for restructuring its debt, and the administration initiated a process to make this restructuring a reality.
- 1.11 From the perspective of quality of service, the average duration and frequency of electric power supply interruptions are greater than those of the [leading distribution companies in the region](#).²⁰ This is reflected, in particular, in municipios in the northern and coastal areas, which report rationing, especially in the months of higher demand. Under the administration of Empresa Energía Honduras, total energy losses went from 30.7% in 2017 to 36% in 2022, worsening the sector's situation. When ENEE resumed control in September 2023, it launched the National Loss Reduction Program, achieving a reduction of 1.6% in the first few months. While this represents an improvement, as part of the [country's next arrangement with the IMF](#), ENEE has set an annual loss reduction target of 2.8% for 2024, 2.8% for 2025, and 2% for 2026. This target is considered achievable, thanks to the measures under way, such as the installation of new conventional and smart meters, the review of circuits with high losses, the inspection of large and medium-sized consumers' facilities, and new T&D projects.
- 1.12 Lastly, with the Special Law of 2022, the monthly electricity consumption ceiling for a residential user to be eligible to receive a subsidy was increased from 75 kWh to 150 kWh, financed by the Ministry of Finance. As a result, the total value of subsidies in 2023 was L 2.055 billion, equivalent to 5.4% of ENEE's revenue. While this change is accompanied by an ongoing targeting process based on socioeconomic variables (location of household, income level, etc.), which has allowed a 31% decline in the new user base receiving subsidies, if this effort, which

¹⁸ [Optional link 12](#) [10].

¹⁹ Electricity losses that exceed the level recognized by the regulations (15%) represent 20% of ENEE's revenues, adversely affecting the company's cash flow for funding investments and constituting the main cause of its deficit.

²⁰ This is measured by the System Average Interruption Duration Index (SAIDI), defined as the total number of minutes of service interruptions in a year divided by the number of clients served, and the System Average Interruption Frequency Index (SAIFI), which measures the average frequency with which a client's service is interrupted in a given year.

has benefitted from technical assistance by the IDB and the World Bank, is not maintained, the amount of subsidies could increase.

- 1.13 **Limited capacities to integrate climate considerations in energy projects.** ENEE is in the first phases of integrating climate change into their investment projects; however, it faces significant limitations in identifying and designing projects with mitigation and adaptation measures. ENEE's Office of the Environment includes environmental criteria in the bidding processes for generation and T&D, but they are not specific for climate change. Furthermore, the plans for expanding generation and T&D do not consider climate vulnerability, and ENEE has shortcomings with respect to climate monitoring and reporting. These limitations hinder Honduras's compliance with its climate commitments and hamper issuance of green debt.
- 1.14 **Determinants.** The Honduran electricity subsector faces constraints in investment and infrastructure expansion,²¹ complicating inclusion of new power generation sources, limiting quality and reliability of supply, and hampering integration into the REM. Moreover, ENEE has little experience in operations and maintenance (O&M) of VRE technologies, which impedes development of these projects.
- 1.15 The electricity matrix's lack of diversification increases the subsector's exposure to climate risks, compromising its stability and sustainability in the long term. Although the LGIE is in effect, the delays in international public bidding processes for procurement from private generators, in building private hydroelectric projects, and the limited NTS infrastructure to integrate VRE, contributed to a 200 megawatt deficit in 2023, causing rationing nationwide. The CND projections envisage the incorporation of solar photovoltaic (SPV) systems with battery energy storage systems (BESS), as a planned response to improve its installed capacity to 40 megawatts (2025) and 200 megawatts (2031).²²
- 1.16 Although the ENEE is making progress restoring substations and T&D grids, its fragile financial situation ([optional link 7](#)) limits needed investments, which contributes to high losses due to obsolete equipment and affects the connection of new private NCRE projects. This context constrains the system's efficiency, management of demand, and delays adoption of more efficient technologies, impacting the capacity to mitigate generation shortfalls, reduce operational costs, and improve the quality of the supply.
- 1.17 The ENEE does not have a unit specialized in planning and forecasting for NCRE projects, which impairs renewable energy research and water monitoring. Furthermore, it has difficulties in identifying, designing, and implementing investment projects that include climate considerations given the lack of a clear mandate and comprehensive environmental and social policy, limiting the implementation of climate change mitigation and adaptation measures. This, in addition to the absence of guidelines and appropriate information systems, limits effective monitoring and reporting of climate action.

²¹ [Optional link 12](#) [11].

²² [Optional link 12](#) [12].

- 1.18 **Gender and diversity.** In 2021, only 20.3% of the workers in electricity, gas, and water utility companies were women.²³ Among the barriers for accessing the sector, a lack of awareness about opportunities and limited technical training stand out.²⁴ Gender violence is endemic in the country: 52.8% of women and girls 15 years of age or older have experienced some kind of violence.²⁵ In terms of diversity, 3.6% of the population are Indigenous and 2.4% are Afro-Hondurans.²⁶ Both communities face hurdles in accessing the formal labor market; indeed, over 37% of Indigenous and Afro-Honduran women have no access to the labor market. The economically active population in the labor market consists of 69.2% men and 33.8% women, who generally work in the informal sector.
- 1.19 **Rationale for the Conditional Credit Line for Investment Projects (CCLIP) and the first individual loan operation.** In order to address the main challenges of the Honduran electricity subsector, a CCLIP has been designed to support the government of Honduras with financial resources in the short and medium terms. These resources, which total US\$200 million, are for investments targeting NCRE power generation, access to electricity, and T&D infrastructure modernization and renewal. The CCLIP will enable the Bank to provide ongoing support to the sector and facilitate a just energy transition.
- 1.20 **Proposed solution and the first individual loan operation.** The first individual loan operation will assist in harnessing the country's solar resources through the installation of resilient SPV farms, with power outputs of between 100 kilowatts and 5 megawatts (reaching a 34.3 megawatt peak), and BESS on lands of substations and hydroelectric plants that belong to ENEE. The foregoing will contribute to renewable generation at production costs of 0.0305US\$/kilowatt-hour, compared with the average solar energy price in Honduras of 0.146US\$/kilowatt-hour. Substations will be strengthened with compensation capacitor banks to support the Regional Operating Entity's investment plan for NTS reinforcement. Distributed generation close to consumption centers will reduce losses of the National Interconnection System (SIN) by approximately 0.84%, a solution that can be replicated in public and private-sector institutions. The project will fund preinvestment in generation and transmission projects that the private sector will execute, seeking a long-term impact. The project will implement smart meters and cybersecurity, train Afro-Honduran women and Indigenous peoples, and strengthen ENEE's technical capacity as an executing agency. Furthermore, it will support ENEE through the IDB CLIMA Pilot Program,²⁷ thus contributing to decarbonization by designing VRE, formulating climate investment portfolios, and implementing climate MRV systems. It will further support ENEE in its efforts to restructure debt by issuing green debt bonds, which will be undertaken by SEFIN. The first individual loan operation will enhance the resilience of the electric power system by diversifying its matrix and will help improve ENEE's financial situation

²³ [Optional link 12](#) [13].

²⁴ [Optional link 12](#) [14] [15].

²⁵ [Optional link 12](#) [16].

²⁶ [Optional link 12](#) [17].

²⁷ [Optional link 12](#) [18].

- by reducing generation costs and electricity losses, and by developing capacities to support SEFIN in potentially accessing the green debt market.
- 1.21 **Empirical evidence.** There is evidence regarding the effectiveness of the solutions proposed to address the determinants and their contribution in resolving the problem laid out above ([optional link 14](#)).
 - 1.22 **Bank experience in the sector.** The Bank has vast knowledge of the Honduran electricity subsector. Over the last decade, the Bank has financed work to strengthen the NTS, modernize and repower generation infrastructure, and increase access to energy. Noteworthy programs include Support for the Integration of Honduras in the Regional Electricity Market and for Grid Access for Renewable Energy ([3103/BL-HO](#) 2013-2021, and [GRT/SX-16864-HO](#), 2018); Support for the National Electricity Transmission Program ([4598/BL-HO](#) and [4599/SX-HO](#), 2018), Cañaveral-Río Lindo Hydropower Complex Rehabilitation and Upgrading Project ([3435/BL-HO](#), 2015-2023); Renovation of the Francisco Morazán Hydropower Plant to Facilitate the Integration of Renewable Energies ([5132/BL-HO](#), 2020); and Remote Area Rural Electrification Program ([GRT/SX-17123-HO](#), 2018), which financed construction of minigrids on Guanaja Island and Moskitia, which withstood Hurricane Julia (2022). All of these programs were executed by ENEE.
 - 1.23 **Lessons learned.** This program draws on lessons learned in other Bank-financed operations that have implemented SPV and BESS ([GRT/SX-17123-HO](#), 2018; [GRT/NG-19288-GY](#), 2022; [4676/BL-GY](#), 2018; [4978/OC-BH](#), 2020; [2432/BL-NI-5](#), 2013; and [3727/BL-NI](#) and [3728/KI-NI](#), 2016). The latter program financed SPV systems at all substations owned by the Nicaraguan transmission company and contributed to decarbonizing its assets. These operations show the importance of: (i) improving the plan to disseminate bidding processes to promote a larger number of bidders and competitive prices; (ii) supporting the design of technology solutions with specialized consultants, taking into consideration the impact of extreme climate vulnerability; and (iii) training the executing agency in Bank procedures regarding environmental and social management, procurement, and monitoring. The program will incorporate these points by (i) promoting dissemination in trade departments of embassies and specialized journals and digital platforms; and (ii) strengthening executing agency technical capacities to design, install, and manage SPV and BESS that are resilient to natural phenomena, with the support of specialized consultants, as well as to execute projects that factor environmental, social, and procurement considerations into technology solutions.
 - 1.24 **Collaboration with other donors.** With the support of the IDB, ENEE obtained a grant from the Korea Institute for Advancement of Technology to design and execute an automated distribution system for Tegucigalpa, including a dispatch center that will enable the control of losses. Furthermore, in conjunction with the World Bank, technical considerations are being coordinated, as well as potential cofinancing for the second operation under the CCLIP, which will fund access to energy. In addition, this operation establishes synergies for the fulfillment of the country's next [arrangement with the IMF](#), given that it considers elements of electricity loss reduction and system optimization, support for the restructuring of ENEE's debt, and institutional strengthening to improve the application of

international good practices in the company's accounting. Lastly, the IDB ([ATN/OC-19594-HO](#)) and the IMF are supporting the monitoring of ENEE's financial performance with performance indicators.²⁸

- 1.25 **Synergies with the IDB Group.** Component 2 of the first individual loan operation (paragraph 1.38) includes conducting studies that will facilitate the participation of the private sector. Coordination will be undertaken with IDB Invest to identify funding opportunities, including with the Empresa Propietaria de la Red [Regional Transmission Company] of SIEPAC for integration in the REM (paragraph 1.6). Furthermore, upcoming operations under the CCLIP include investments in transmission, both public and private, in which synergies will be sought with IDB Invest. Noteworthy with respect to the IDB Lab is the replicability of investments in power generation with VRE ([SP/OC-24-71-HO](#), [ATN/OC-21101-HO](#), and [SP/OC-24-74-HO](#)), in which ENEE is participating as a team member. These operations seek to support the Honduran financial sector, including savings and loans and banks, to finance sustainable energy solutions for micro, small, and medium-sized enterprises.
- 1.26 **IDB Group Country Strategy with Honduras.** The program is aligned with the IDB Group Country Strategy with Honduras 2019-2022, extended until 31 December 2024 (GN-2944-2), through the priority area of expanding sustainable productive opportunities and the strategic objective of improving the efficiency, coverage, quality, and sustainability of electricity service.
- 1.27 **Strategic Alignment.** The program is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (CA-631) and aligned with the objectives of: (i) reducing poverty and inequality by fostering inclusion of women and Indigenous people in the labor force (paragraph 1.18); (ii) addressing climate change insofar as it is a IDB CLIMA pilot program operation that aims to mitigate climate change; and (iii) bolstering regional sustainable growth by reinforcing the NTS for greater integration in the REM. The program is aligned with the following operational focus areas: (i) biodiversity, natural capital, and climate action; (ii) gender equality and inclusion of diverse population groups; (iii) institutional capacity, rule of law, and citizen security; (iv) sustainable, resilient, and inclusive infrastructure; and (v) regional integration. Lastly, the operation is in alignment with the Employment Action Framework with Gender Perspective (GN-3057), the Energy Sector Framework Document (GN-2830-8), and the Climate Change Sector Framework Document (GN-2835-13).
- 1.28 **IDB CLIMA Pilot Program eligibility requirements.** This pilot operation under the IDB CLIMA Pilot Program meets the established eligibility criteria (AB-3386) and its operational guidelines (GN-3168-6). It reflects climate ambition through combined climate and biodiversity-related finance of at least 60% of investments under the loan,²⁹ and the activities are in line with the thematic areas of biodiversity and climate ambition, and MRV compliance and debt market readiness. The program's general objective is aligned with the IDB CLIMA Pilot Program's General

²⁸ [Optional link 12](#) [19].

²⁹ According to the [Joint Methodology for Tracking Climate Finance of the multilateral development banks \(MDBs\)](#).

- Objective and includes at least three specific objectives aligned with the Specific Objectives of the IDB CLIMA Pilot Program ([optional link 5](#)). This operation contributes to specific objective 1 of the IDB CLIMA Pilot Program by financing investments in sustainable electricity infrastructure that is low in emissions and resilient to climate change, and directly supports specific objectives 2 and 3 of the IDB CLIMA Pilot Program by enhancing ENEE's capacity to design projects with a focus on climate and biodiversity and MRV systems.
- 1.29 **Alignment with the objectives and targets of the Climate Investment Fund (CIF) - Scaling up Renewable Energy Program (SREP).** This operation has funding from the investment plan the CIF approved for Honduras in 2017 under the SREP program. The works proposed (paragraph 1.36) are in line with the [SREP Investment Plan](#) for Honduras, which considers three components executed by the Bank: (i) strengthening policies and the regulatory framework for NCREs; (ii) sustainable rural energization; and (iii) supporting development of grid-connected NCRE. The works of the project fall under Component III of the SREP Investment Plan for Honduras, and contribute to its objectives of (i) ensuring connection to the NTS with NCRE projects; (ii) diversifying the country's generation matrix; and (iii) strengthening the NTS.
- 1.30 **Climate finance.** A total of 96.11% of the loan proceeds are considered climate finance since they are to be invested in adaptation and mitigation activities, according to the [Joint Methodology for Tracking Climate Change Finance of the MDBs](#) ([optional link 5](#)).
- 1.31 **Alignment with the Paris Agreement.** This operation has been analyzed using the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment and the [IDB Group Paris Alignment Implementation Approach](#) and has been deemed: (i) aligned with the Paris Agreement adaptation target; and (ii) universally aligned with the Paris Agreement mitigation target.
- 1.32 **Public Utilities Policy (GN-2716-6).** The program is consistent with the Policy since it complies with the conditions of: (i) environmental sustainability by contributing to the reduction of greenhouse gases (GHGs), through the use of renewable energy; (ii) financial sustainability by reducing expenditures on fossil fuels; and (iii) economic evaluation inasmuch as each project generates an economic return according to the cost-benefit assessment ([optional link 1](#)).
- 1.33 **Strategy to include climate change considerations.** In line with the targets and objectives set forth in the NDC, the Third National Communication to the United Nations Framework Convention on Climate Change, the National Development Strategy Low in GHG-Emissions, and the National Climate Change Plan, this program provides for actions and measures to decrease GHG emissions and improve climate resilience in the Honduran electric power sector. Actions that will promote grid decarbonization are envisaged through the installation of solar farms. With respect to adaptation, climate resilience criteria will be incorporated in the design and construction of the works to be built. Lastly, sector entities will be supported by strengthening their capacity to undertake MRV of climate change actions and investments.

B. Objectives, components, and cost

- 1.34 **Objective of the CCLIP.** To contribute to the decarbonization of the electric power sector, enhance citizens' access to electricity services, and bolster the sector's financial and operational sustainability through investments that lead to a sustainable, reliable, and efficient electric power supply.
- 1.35 **General objective of the first individual loan operation.** To support the decarbonization and climate resilience of the electricity generation matrix, improve the financial sustainability of the electric power sector, and strengthen capacities that allow for issuing debt on the green capital markets to achieve climate commitments. The specific objectives are to: (i) increase the capacity to generate solar photovoltaic (SPV) energy using a climate-change mitigation approach; (ii) improve financial and operational efficiency and quality of electricity service; (iii) bolster sector entities' capacities to design and operate projects using climate change mitigation and adaptation criteria; and (iv) enhance sector capacities to monitor and report actions and investments linked to climate change mitigation and adaptation in line with bond market best practices.
- 1.36 **Component 1. Investments in sustainable electric power infrastructure that are low in emissions and resilient to climate change (US\$49.4 million: US\$44.3 million IDB; US\$5.1 million SREP).** This component will help strengthen electric power infrastructure, including: (i) development and implementation of solar farms, resilient to natural phenomena on lands where there are substations or hydroelectric plants owned by ENEE in order to increase generation capacity; (ii) implementation of BESS at ENEE substations to ensure ongoing and efficient supply, especially in critical areas; and (iii) reinforcement of electric power substations to optimize distribution of solar energy, reduce losses, and integrate the NTS into the REM.³⁰
- 1.37 The land where the works will be built ([optional link 13](#)) will meet the following requirements: (i) the land belongs to ENEE; (ii) it has not been nor is occupied by squatters; (iii) it avoids areas of social conflict; (iv) it has negligible environmental impact (including minimal impact on trees); (v) it runs minimal risk of flooding; (vi) it does not congest the T&D system; (vii) it provides energy in nodes with high demand; and (viii) it minimizes civil works needed for solar system installation.
- 1.38 **Component 2. Institutional strengthening for the design, operation, and supervision of projects with a climate change approach (US\$5.63 million: US\$3.63 million IDB, US\$2 million SREP).** This component seeks to strengthen the institutional and technical capacity of the executing agency to efficiently manage electricity subsector projects, integrating climate change adaptation and mitigation criteria and collaborating with other ministries involved in identifying and designing investment projects in the sector. Funding will be allocated for: (i) trainings in design, O&M of SPV, BESS; (ii) implementation of remote control systems for efficient management of SPV projects; (iii) studies to assess wind resources and opportunities for generation and prefeasibility for geothermal

³⁰ Substation reinforcements include: (a) installation of compensation capacitor banks for a total of US\$5.1 million (part of the new reinforcements, estimated at US\$82.9 million, paragraph 1.6); and (b) smart metering and cybersecurity measures.

- projects; (iv) a study to develop transmission reinforcements for the NTS (which together with (iii) are inputs in bidding processes for projects to be developed by the private sector); (v) environmental and engineering studies for access programs; (vi) formulation of a technical guide to incorporate climate change mitigation and adaptation into future investments; (vii) trainings to strengthen the entities associated with the energy sector (ENEE, SEN, SERNA, SEFIN) in formulating and executing investment plans and their expansion with climate considerations and in improving inputs for the country's green taxonomy; (viii) formulation of ENEE climate policy, in alignment with ENEE environmental and social policy, and national policies; (ix) ENEE financial planning to promote access to new sources of green financing, in keeping with the national climate financing strategy and sector objectives; (x) formulation of the ENEE environmental and social policy coordinated with the IDB CLIMA roadmap; (xi) training in building and installing SPV systems, prioritizing Afro-Honduran women, Native peoples, and youth, and workshops on positive masculinity and gender; and (xii) an action plan to address findings and improve the implementation of international good practices in the company's accounting. ([optional link 15](#)).
- 1.39 **Component 3. Strengthening climate change monitoring and reporting (CCMR) capacities (US\$470,000 IDB).** This component seeks to enhance ENEE's capacities to monitor and report on climate change mitigation and adaptation actions and investments, and to undertake activities with other ministries involved in CCMR issues. Funding will be allocated for: (i) trainings at entities associated with the energy sector (ENEE, SEN, SERNA, SEFIN) in CCMR, investment efficiency measurement, and international standards for the green debt market; (ii) consultancies and support staff to bolster the ENEE environmental unit; and (iii) improvement and automation of the institutional planning system for monitoring and reporting mitigation and adaptation measures of ENEE investment projects, which will feed into the national climate change monitoring system and will generate reports required by other actors.
- 1.40 **Administration and management expenditures (US\$4.23 million: US\$1.55 million IDB, US\$2.68 million ENEE).** Funding will be allocated for the costs of program administration and management, as well as audits, monitoring, and evaluation.
- C. Key results indicators**
- 1.41 **Expected outcomes.** (i) Increase the share of SPV energy in the generation matrix; (ii) improve the quality and reliability of the electric power supply; (iii) reduce technical losses; (iv) decrease GHG emissions; (v) strengthen entities to design and supervise sector projects with climate change mitigation and adaptation measures, in alignment with the climate financing strategy; and (vi) develop capacities to report on ENEE climate change adaptation and mitigation measures to the SEN, SERNA, and SEFIN. Implementation of the program will improve the quality of the electric power supply, promoting greater energy inclusion. Furthermore, the entities involved will have strengthened capacities to continue with climate change mitigation and adaptation measures, ensuring sustainable benefits in the long term.
- 1.42 **Program beneficiaries.** The first individual loan operation is estimated to directly benefit: (i) 1.9 million clients of the SIN, who will have access to reliable and clean

electricity service; (ii) Afro-Honduran women, Native peoples, and youth in the project's area of influence, through training programs on the construction and installation of SPV systems and workshops on gender issues (paragraph 1.38); and (iii) national entities involved in drawing up energy sector public policies, such as the ENEE, SEN, SERNA, and SEFIN, which will have strengthened adaptation and mitigation capacities for CCMR. (paragraph 1.39).

- 1.43 **Economic viability.** An ex ante cost-benefit analysis of the planned investments was conducted, quantifying the investment costs, O&M, and the benefits from the conventional energy avoided, the reduction in losses, the increase in reliability (in systems with storage), and the decrease in CO₂ emissions by displacing conventional energy. The total economic net present value is US\$57.33 million, and the economic internal rate of return is 33.2%, without considering the reduction in CO₂ emissions. With this reduction, the economic internal rate of return increases to 36.5% and the economic net present value jumps to US\$66.28 million, underscoring the economic and environmental viability of the investment. A sensitivity analysis showed that, even with potential increases in costs and decreases in generation, the economic results remain strong.
- 1.44 The unquantified benefit of institutionally strengthening ENEE/SEN/SERNA/SEFIN to enable them to incorporate climate change criteria and improve monitoring and reporting of climate change is reflected in the capacity to meet the country's climate commitments and in the potential to issue green debt as part of its restructuring strategy.
- 1.45 **Sustainability.** The analysis of technical and economic viability confirms the sustainability of the works described in paragraph 1.36. The institutional strengthening activities considered (paragraphs 1.38-1.39 and 1.39) will contribute to the technical, operational, and financial sustainability of ENEE and of the sector. The costs of the works' O&M will be covered by the rate³¹ and will increase the NCRE share in power generation, reduce electricity losses, and facilitate integration in the REM, in addition to decreasing GHG emissions.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Cost and financing.** A CCLIP is proposed for an amount of up to US\$200 million in a single sector—energy—in order to finance investment loans. The term of the CCLIP will be 10 years, and three individual operations are planned. The total for the first CCLIP operation will be up to US\$50 million in Ordinary Capital resources (US\$17.50 million in concessional and US\$32.50 million in regular Ordinary Capital financing). Financing will be complemented by a US\$2 million grant and a US\$5.10 million loan from SCX-SREP; in addition to a local counterpart contribution of US\$2.68 million (Table 1). The first individual loan will be a specific investment operation since there is already a complete design of the works.

³¹ [Optional link 12](#) [20].

Table 1. Estimated costs of the program (US\$ million)

Components	IDB	SREP (loan)	SREP (grant)	Local contribution	Total	%
Component 1. Investments in sustainable electric power infrastructure that are low in emissions and resilient to climate change	44.34	5.10			49.44	83%
Component 2. Institutional strengthening for the design, operation, and supervision of projects with a climate change approach	3.63		2.00		5.63	9%
Component 3. Strengthening CCMR capacities	0.47				0.47	1%
Administration and other expenses	1.55			2.68	4.23	7%
Total	50.00	5.10	2.00	2.68	59.78	100%

- 2.2 **Disbursement timetable.** The first individual loan operation will have a disbursement period of five years, with the disbursement flow shown below:

Table 2. Disbursement schedule (US\$ million)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	12.06	33.52	3.51	0.84	0.05	50.00
SREP-Loan	-	3.25	1.82	0.01	-	5.10
SREP-Grant	-	1.42	0.57	-	-	2.00
Local contribution	0.96	1.19	0.35	0.10	0.06	2.68
Cumulative disbursement total	13.02	39.40	6.26	0.96	0.12	59.78

- 2.3 **IDB CLIMA nonreimbursable financing.** This operation, as part of the IDB CLIMA Pilot Program, includes nonreimbursable financing (HO-J0003) from the IDB Grant Facility of up to 5% of the loan proceeds financed with Ordinary Capital resources, equivalent to US\$2.5 million, provided that compliance with the KPI targets is independently verified and the remaining conditions of Section III.C are met. If there was a reduction in the loan during the original disbursement period or its extensions, the amount of the IDB CLIMA nonreimbursable financing would be reduced proportionally in order to keep it at 5%.

B. Environmental and social risks

- 2.4 Considering the existing information and the activities to be undertaken, the operation has a Category B environmental and social impact classification. This classification is due to the potential adverse impacts that could arise from SPV development and implementation, substation reinforcement, and BESS

- implementation. The impacts will be localized, short-term, and with readily available mitigation measures. The main impacts in the construction phase are from air pollution from the dust emitted when preparing the land for installation of structures and foundations, noise from the use of heavy machinery to remove dirt, an increase in traffic from transporting SPV materials and components, as well as generation of solid waste. No impacts have been identified in connection with economic or physical displacement, or effects on Indigenous communities, critical habitats, or protected areas.
- 2.5 The environmental and social risk is deemed to be substantial given the risks related to direct impacts from construction, the contextual risk associated with community opposition to similar SPV projects and the lack of regulation for managing components once they have exhausted their useful life and require replacement. There is a potential risk for forced labor in the solar panel supply chain, and in order to mitigate such a risk, IDB Group measures (GN-3062-1) will be taken into account. As to the performance risk, the executing agency has experience with the old Bank safeguard policies, but not with the Environmental and Social Policy Framework, which could hinder proper implementation of the measures.
- 2.6 During the preparation stage, a summary report was completed on the environmental and social management system of the executing agency, assessing its current management capacity and areas to be strengthened. Additionally, a strategic environmental and social assessment (SESA) and a strategic environmental and social management framework (SESMF) were prepared, which encompass the guidelines and procedures for the specific environmental and social analysis and management policy of each work. EI SESMF includes a stakeholder participation plan and a strategic sociocultural analysis.
- 2.7 Using the methodology established by the Bank, the disaster and climate change risk classification is deemed moderate. Natural threats that include earthquakes, gale-force winds, precipitation, and flooding were determined to have high risk levels; criticality and vulnerability of infrastructure was moderate, given that intensification of current natural threat conditions in the surrounding areas or in the vulnerability of local communities is not expected as a result of building solar farms; and criticality of service was moderate since the total power generation from solar farms to be installed will not exceed 10% of the country's total supply. Consequently, the SESMF includes a natural disaster risk management plan, an erosion control management plan, and a contingency plan with mitigation measures for the identified threats.
- 2.8 On 30 May 2024, a hybrid consultation took place in San Pedro Sula. The ENEE's Office of the Environment convened municipal representatives, including mayors and authorities responsible for permitting and community development. The participants showed a positive attitude toward the solar projects, with questions about implementation timeframes, improvements in the electric power system, beneficiaries, the legal framework for renewable energy, community bidding, and solar self-supply. The updated version of the SESA/SESMF and the report on the public consultation were published on the [IDB website](#) on 30 September 2024.

C. Fiduciary risks

2.9 The executing agency has extensive experience in executing Bank-financed projects. The institutional capacity assessment that was conducted identified two high fiduciary risks: (i) an increase in the workload in ENEE technical areas (a team devoted to project execution will be created and strengthened through hiring new qualified staff); and (ii) an increase in bid prices (contingencies have been included in the project's budget, and quotation will be secured in advance in order to avoid price fluctuations).

D. Other key issues and risks

2.10 A risk management analysis was completed (Table 3):

Table 3. Other risks

Risk description	Risk taxonomy	Risk level	Mitigation strategy
Delays in initiating works in the municipio of San Pedro Sula due to a delay in obtaining construction permits	Development	Medium-High	High-level meetings to manage agreements between entities
Change of authorities in the 2026-2030 election cycle	Public management and governance	High	Timely communication with new authorities about the projects planned and those under way. Readiness for processing contracts for goods, services, and works will move ahead through advance procurement, which will initiate the process and will subsequently be approved and ratified by the National Congress
Worsening of the ENEE's financial situation	Sustainability	High	IDB technical support on the reform process, actions to reduce electricity losses through new investments carried out by ENEE, including the execution of the project with the Korea Institute for Advancement of Technology and its replicability at the national level, technical assistance for the development of specialized consulting projects, and improvements in the monitoring and reporting system to support the eventual issuance of climate bonds by SEFIN.

2.11 **Technical viability.** The design of the works considers: (i) scenarios of demand and generation; (ii) availability of solar resources; (iii) set-up of SPV and BESS arrangements with specialized digital tools; (iv) criteria for resilience, considering the site's vulnerability; (v) development of civil works and electric power interconnection; (vi) load level of distribution infrastructure; (vii) identification of transmission reinforcement in light of National Dispatch Center (CND) and regional operating

entity studies; and (viii) minimizing the environmental impact on land selection (paragraph 1.37).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Execution mechanism and implementation plan.** The borrower will be the Republic of Honduras. The executing agency will be ENEE, which will execute the program through its program coordination unit (PCU), with technical support from the Generation Management Office and the Environmental Office for environmental and social matters. The PCU will be responsible for: (i) planning, coordination, evaluation, and monitoring of the program; (ii) conducting procurement processes for works, goods, and consulting services; (iii) requesting disbursement from the Bank, financial planning, and keeping financial records; (iv) supervising and overseeing works; (v) preparing the program's [multiyear execution plan](#), the [annual work plan](#), the [procurement plan](#), and the semiannual progress reports; (vi) contract administration; (vii) hiring specialized consultants for audited financial statements, the midterm evaluation, and the final evaluation; and (viii) serving as interlocutor with the Bank.
- 3.2 **Executing agency experience.** ENEE has a technical team trained in renewable energy generation projects, transmission and distribution (T&D), and environmental, social, and gender perspective management. Its PCU has experience in projects financed by the Bank and other multilaterals, executing six Bank-financed operations in the last 10 years, including four involving transmission. Nevertheless, to ensure proper execution of the operation, the ENEE needs: (i) a team specialized in solar photovoltaic (SPV) and battery energy storage system (BESS) projects; (ii) a team for institutional strengthening and monitoring, reporting, and verification (MRV) (Components 2 and 3); (iii) creation of a hydrology and climate modeling unit; and (iv) an expert in climate adaptation for the Office of the Environment.
- 3.3 **Program [Operating Regulations](#).** Provisions of the program Operating Regulations will govern the execution of the first individual loan operation. These provisions will set forth the procedures to be used during program execution and may be modified with a written no-objection from the Bank. The program Operating Regulations will include, at a minimum: (i) a detailed plan of execution and institutional roles and responsibilities; (ii) procedures for the selection and contracting of works, goods, and services; (iii) rules and procedures for administrative and financial management; (iv) monitoring procedures; (v) measures, actions, and procedures set forth in the Strategic Environmental and Social Management Framework (SESMF) and the Environmental and Social Management System (ESMS); (vi) strategy for investment sustainability and operations and maintenance (O&M) responsibilities for the works; and (vii) an annex with the monitoring and evaluation plan (MEP), which will include a verification protocol for the key performance indicators (KPIs). (paragraph 3.13).
- 3.4 **Special contractual conditions precedent to first disbursement of the financing: (i) a subsidiary agreement has entered into force between the borrower and the executing agency for transferring loan proceeds and other**

- execution obligations; (ii) the executing agency has approved and implemented the program [Operating Regulations](#) in the terms previously agreed upon with the Bank, which will include as annexes the SESMF, the ESMS, and the Environmental and Social Action Plan; (iii) the executing agency has selected a general coordinator, a technical coordinator, an evaluation and monitoring specialist, a finance specialist, a procurement specialist, a contract management specialist, an environmental specialist, and a social specialist, in keeping with the profiles described in the program Operating Regulations for the program coordination unit (PCU); (iv) the executing agency has created a photovoltaic and battery storage project development team and has designated, among the executing agency staff, a team with at least two solar energy and storage experts, in accordance with the profiles described in the program Operating Regulations; (v) a team has been created for executing institutional strengthening and monitoring, reporting, and verification (MRV) (Components 2 and 3) with the designation of at least 2 full-time experts; (vi) a hydrology and climate modeling unit, which has experts in hydrology, geology, climate scenarios, solar and wind energy resources, as well as hydroclimatological station maintenance, has been established at ENEE; and (vii) the Office of the Environment has included a climate adaptation professional on its team, with the profile described in the program Operating Regulations. The first and second conditions ensure a robust organizational and operational structure from the outset. The third condition confirms that the executing agency has a trained and well-structured execution team. The fourth condition guarantees appropriate staff and resource allocation for SPV and BESS. The fifth condition ensures there is a team specialized in institutional strengthening and in Components 2 and 3 of the program. Lastly, the sixth and the seventh conditions are essential so that ENEE effectively manages the water management and climate modeling components.
- 3.5 **Procurement policies.** ENEE, through its PCU, will carry out procurement and contracting, in keeping with the Policies for the Procurement of Goods and Works Financed by the IDB (GN-2349-15), Policies for the Selection and Contracting of Consultants Financed by the IDB (GN-2350-15), and the provisions set forth in the procurement plan. In the interest of efficiency, framework agreements may be entered into for the repeated selection of consulting services (paragraphs 4.5 and 4.6 of document GN-2350-15). The principles and criteria provided for in the Financial Management Guidelines (OP-273-12 or its current version) will be taken into consideration.
- 3.6 **Advance procurement.** In order to streamline project execution, ENEE will move forward with the bidding process for works and goods included in Annex III and will proceed to award contracts once the Board of Executive Directors approves the loan proposal. The process will be carried out following Bank policies so that the expenditures corresponding to these contracts are eligible for funding.
- 3.7 **Audits.** During program execution, ENEE will present on an annual basis the audited financial statements of the program in the terms required by the Bank. This will require the selection of independent audit firms deemed eligible by the Bank of Honduras. These reports will be submitted 120 days following the end of the fiscal year; the final report will be submitted 120 days following the effective date of the last disbursement.

3.8 **Operations and maintenance.** ENEE will be responsible for O&M during the useful life of the works. The Borrower, through the executing agency, agrees to submit an annual report on O&M and the status of the program's works. The report will be submitted in the first quarter of each calendar year, starting the year that the first work financed by the program has concluded, and ending the fifth year after the original disbursement period or its extensions has concluded.

B. Summary of arrangements for monitoring results

3.9 The program has an MEP ([required link 2](#)). The monitoring mechanism will include the: (i) [procurement plan](#); (ii) [annual work plan](#); (iii) annual verification of fulfillment of targets; and (iv) semiannual reports that will contain: (a) activities conducted in the period, execution progress, problems that have arisen and how they have been resolved; (b) results matrix evaluation, [procurement plan](#), and [annual work plan](#); and (c) analysis of the IDB project monitoring report, which will evaluate the fulfillment of targets, and results matrix output and outcome indicators. Execution for that period will be evaluated, and the plan for the following six months will be included. The executing agency will be responsible for preparing the semiannual progress reports and submitting them to the Bank within 60 days after the last working day of each six-month period during the disbursement period or its extensions. Additionally, periodic monitoring meetings will take place between the executing agency and the Bank, in addition to Bank supervision visits and administration missions.

3.10 **Evaluation.** The MEP includes program evaluation mechanisms, the objective of which is to verify fulfillment of the targets agreed upon in the results matrix. The executing agency will select and contract consulting services to complete: (i) a midterm evaluation, in a project completion report (PCR) format, once 50% of the program's resources have been disbursed and justified, or 24 months after the first loan disbursement, whichever occurs first. This evaluation will be submitted to the Bank 30 days after its completion, and will analyze progress made, coordination and execution considerations, the extent of compliance with contractual obligations, recommendations to achieve targets, and sustainability of investments; (ii) a final evaluation that will be submitted to the Bank within 90 days after the date of the last disbursement of project proceeds. Given the time needed to measure expected results, the PCR will be presented 24 months after the operational closure of the program, in accordance with Bank guidelines (OP-1695-5); and (iii) an ex post cost-benefit analysis, following the methodology applied in the ex ante evaluation.

C. Requirements related to the IDB CLIMA Pilot Program

3.11 **IDB CLIMA Roadmap.** The roadmap summary, prepared together with the borrower is included in [optional link 5](#).

3.12 **Key performance indicators (KPIs).** The KPIs that the borrower is to fully comply with in order to access disbursement of the IDB CLIMA nonreimbursable financing, which are final results indicators, are as follows:

- The ENEE's installed generation capacity using SPV energy that enters into National Interconnection System (SIN) operations increases to 34.3 megawatts.

- 80% of energy-sector projects designed by ENEE and assigned priority by the Ministry of Finance (SEFIN) include climate change mitigation and adaptation measures.
 - ENEE has submitted at least one report on climate change mitigation and adaptation measures to the Ministry of Energy (SEN), Ministry of Natural Resources and the Environment (SERNA), and SEFIN using the new monitoring and reporting system.
- 3.13 **KPI verification protocol.** Each one of the three KPIs selected has a verification protocol, defined in the MEP. This protocol includes: (i) definition of the KPI; (ii) the target against which KPI compliance will be measured; (iii) the timetable for verification, consistent with the periods in which the data will be available; (iv) terms of reference for verifying compliance with the KPIs; and (v) other relevant methodological information.
- 3.14 **Independent external verification of the KPIs.** The borrower will contract a consulting firm/independent individual consultant (the “Reviewer”), pursuant to the terms agreed upon with the Bank and in accordance with the Policies for the Selection and Contracting of Consultants Financed by the IDB (GN-2350-15) in order to verify compliance with the targets of the three KPIs (paragraph 3.12). This verification will take place in the last year of the IDB (OC) loan original disbursement period or its extensions, provided that the Bank has disbursed at least 90% of the IDB (OC) loan proceeds. Furthermore, the Reviewer will verify evidence indicated in paragraph 3.15(iv).
- 3.15 **Condition precedent to the IDB CLIMA nonreimbursable financing.** The borrower will have submitted to the Bank: (i) information on the bank account into which to deposit the IDB CLIMA nonreimbursable financing resources; (ii) the independent verification report of the KPIs that the Reviewer has completed, confirming full compliance with the three KPI targets; (iii) the indicative action plan mentioned in paragraph 3.17; and (iv) evidence that the project’s climate and biodiversity financing is at least 60% of the IDB (OC) loan amount, according to Bank methodology.
- 3.16 **IDB CLIMA nonreimbursable financing disbursement.** Disbursement will take place during the last year of the IDB (OC) loan original disbursement period or its extensions, in one sole tranche.
- 3.17 **Use of the IDB CLIMA nonreimbursable financing.** The borrower will use the IDB CLIMA nonreimbursable financing in interventions related to biodiversity, climate change, and/or sustainability, according to the provisions of the indicative action plan to be drafted according to the format provided by the Bank. The borrower will not use the nonreimbursable financing to fund, directly or indirectly, interventions related to the activities included in Annex I of the Environmental and Social Policy Framework (IDB Environmental and Social Exclusion List), or to finance activities in which the Bank has determined that a prohibited practice has occurred.
- 3.18 **Monitoring.** During the IDB (OC) loan original disbursement period or its extensions, the Bank will monitor: (i) progress in implementing the three KPIs; (ii) progress of the operation’s combined climate and biodiversity financing; and (iii) compliance with contractual provisions associated with the IDB CLIMA

nonreimbursable financing. Monitoring will be based on the borrower's monitoring system according to the MEP.

- 3.19 **Audit and ex post supervision.** The borrower will keep documents and records regarding the interventions carried out with the IDB CLIMA nonreimbursable financing for a period of three years after the original disbursement period or its extensions. The borrower will submit to the Bank an audited assurance report on the use of the nonreimbursable financing resources within a period of up to two years as of the IDB CLIMA nonreimbursable financing disbursement. The independent audit entity responsible for the last audited financial statement of the IDB loan will prepare the report. (paragraph 3.7).

IV. ELIGIBILITY CRITERIA

- 4.1 **The conditional credit line for investment projects (CCLIP) and the first individual loan operation.** The CCLIP complies with the provisions set forth in paragraph 3.2 of Annex III of document GN-2246-13 and paragraph 3.6 of the CCLIP Operational Guides (GN-2246-15) inasmuch as its objectives are among the priorities defined in the IDB Group Strategy with Honduras 2019-2022 (GN-2944-2), specifically with the expansion of sustainable productive opportunities (paragraph 3.20 of document GN-2944). The first individual loan operation complies with all the criteria set forth in paragraph 3.5(i)-(iv) of Annex III of document GN-2246-13 and document GN-2246-15: (i) it belongs to the same sector as the CCLIP; (ii) it will contribute to the CCLIP sector objective (paragraph 1.34) given that it supports decarbonization of ENEE; (iii) an institutional capacity assessment of the executing agency was completed, through the simple evaluation mechanism; and (iv) specific actions are included to improve capacities of the executing agency, in line with the recommendations of the institutional capacity assessment.

Development Effectiveness Matrix		
Summary		HO-L1245
I. Corporate and Country Priorities		
Section 1. IDB Group Institutional Strategy Alignment		
Operational Focus Areas	<ul style="list-style-type: none"> -Biodiversity, natural capital, and climate action -Gender equality and inclusion of diverse population groups -Institutional capacity, rule of law, citizen security -Sustainable, resilient, and inclusive infrastructure -Regional integration 	
[Space-Holder: Impact framework indicators]		
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2944-2	Expansión de oportunidades productivas sostenibles.
Country Program Results Matrix	GN-3207-3	The intervention is included in the 2024 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		7.3
3.1 Program Diagnosis		2.3
3.2 Proposed Interventions or Solutions		1.6
3.3 Results Matrix Quality		3.5
4. Ex ante Economic Analysis		7.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		1.5
4.2 Identified and Quantified Benefits and Costs		0.0
4.3 Reasonable Assumptions		2.5
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium High
Environmental & social risk classification		B
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)		
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		

Evaluability Assessment Note:

The project is the first individual loan operation to be part of the Conditional Credit Line (CCLIP). The general objective of the CCLIP is to contribute to the decarbonization of the electricity sector, improve access to electricity services for citizens and strengthen the financial and operational sustainability of the electricity sector, through investments that allow a sustainable, reliable and efficient supply of electricity. The overall objective of the First Individual Loan Operation is to support the decarbonization and climate resilience of the electricity generation matrix, the improvement of the financial sustainability of the electricity sector, and to strengthen the capacities that allow it to consider debt issuances in green capital markets to achieve its climate commitments.

The specific objectives are: (i) to increase the generation capacity of Solar Photovoltaic (PVS) under a Climate Change (CC) mitigation approach; (ii) improve the financial and operational efficiency and quality of the electricity service; (iii) strengthen the capacities of the entities in the energy sector to design and operate projects with CC mitigation and adaptation (M&A) criteria; and (iv) improve sectoral capacities to monitor and report actions and investments linked to CC M&A in line with debt market best practices.

The operation has an adequate diagnosis, with a well-identified problem and a clear explanation of most of the determinants on which the project focuses. The diagnosis could be strengthened with the inclusion of empirical evidence on the effectiveness of the proposed interventions. In the case of the BID CLIMA Pilot, it is understood that, given the novel nature of the intervention, there is no evidence about the effectiveness of the proposed solutions.

The results matrix exhibits vertical logic, with clear specific objectives and SMART result indicators that allow demonstrating the achievement of the specific objectives. Some of these indicators could be strengthened with a more detailed explanation of their calculation methodology. The economic analysis consisted of an estimation of the net benefits of the program through a Cost-Benefit Analysis (CBA), where most of the net benefits of the program come from the generation of avoided conventional energy and the reduction of CO2 emissions associated with this conventional energy.

The program has a Monitoring and Evaluation Plan that specifies: (i) the methodology for measuring indicators; (ii) the attribution of the results of the project; (iii) data requirements; (iv) those responsible; and (v) the estimated budget. The evaluation of the results will be done with a before-and-after analysis for the indicators of the results matrix, where the attribution of the results depends on the link between the specific outputs of each component and the associated results.

RESULTS MATRIX

Project objectives:	Support decarbonization and climate resilience of the electricity generation matrix, improve the financial sustainability of the electric power sector, and strengthen capacities that allow for issuing debt on the green capital markets to achieve climate commitments. The specific objectives are to: (i) increase the capacity to generate solar photovoltaic (SPV) energy using a climate-change mitigation approach; (ii) improve financial and operational efficiency and quality of electricity service; (iii) bolster entities' capacities to design and run projects using climate change mitigation and adaptation criteria; and (iv) enhance sector capacities to monitor and report actions and investments linked to climate change mitigation and adaptation in line with bond market best practices.
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GENERAL DEVELOPMENT OBJECTIVE (GO)

Indicators	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
GO. Support decarbonization and climate resilience of the electricity generation matrix, improve the financial sustainability of the electric power sector, and strengthen capacities that allow for issuing debt on the green capital markets to achieve climate commitments							
GO1. Annual emissions of CO ₂ e avoided that are associated with the NCRE owned by ENEE	tCO ₂ e/year	0	2023	2029	31,668 tCO ₂ e avoided thanks to the start-up of SPV energy projects' operations	Annual reports (ENEE)	[Required link 2]
GO2. Proportion of electricity service interruptions in areas of influence during extreme climate events	%	0	2023	2029	10%	Annual reports on operational efficiency (ENEE)	[Required link 2]
GO3. Current revenues/operating expenses of ENEE	%	0.92	2023	2029	1.03	Financial management report (ENEE)	

SPECIFIC DEVELOPMENT OBJECTIVES (SO)

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final project target	Means of verification	Comments
				2025	2026	2027	2028	2029			
SO1. Increase the capacity to generate solar photovoltaic (SPV) energy using a climate-change mitigation approach											
SO1.1 ENEE-owned SPV energy, including storage, delivered annually to the SIN	Megawatt-hours	0	2024	0	27,900	63,631	63,631	63,631	63,631	CND operational report	
SO1.2 ENEE's installed generation capacity with SPV energy in operation	megawatts	0	2024	0	15	34.3	34.3	34.3	34.3	CND operational report	IDB CLIMA KPI1 Installed capacity delivering energy to the grid
SO2. Improve financial and operational efficiency and quality of electricity service											
SO2.1 Technical losses in electricity distribution grid associated with substations where SPV and storage are installed	% reduction	0	2024	0	0	0.4%	0.84%	0.84%	0.84%	Energy balance report from management of distribution	[Required link 2]
SO2.2 System Average Interruption Duration Index (SAIDI)	#hours/year	15.26	2024	15.2	14.9	14.6	14.3	14	14	Service quality report sent to management of distribution	[Required link 2]
SO2.3 System Average Interruption Frequency Index (SAIFI)	#interruptions/year	15.85	2024	15.7	15.5	15.3	14.9	14.6	14.6		
SO3. Bolster sector entities¹ capacities to design and run projects using climate change mitigation and adaptation criteria											
SO3.1 Technical staff of sector entities with certification in planning, design/operation of NCRE projects with a climate change approach	% passing	0	2024	0	0	75	75	75	75	Technical report	[Required link 2]
SO3.2 Energy sector projects designed by ENEE and implemented by SEFIN incorporating climate	%	0	2024	0	0	30	80	80	80	Priority note	IDB CLIMA KPI2 [Required link 2]

¹ SEFIN, SEN, SERNA, and ENEE.

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final project target	Means of verification	Comments
				2025	2026	2027	2028	2029			
change mitigation and adaptation measures											
SO.3.3 Afro-Honduran women certified out of the total number of women trained to build and install NCRE projects	%	0	2024	0	30	0	0	0	30	Report from General Manager	[Required link 2]
SO.3.4 Indigenous persons certified out of the total number of persons trained to build and install NCRE projects	%	0	2024	0	30	0	0	0	30		
SO4. Enhance sector capacities to monitor and report actions and investments linked to climate change mitigation and adaptation in line with bond market best practices											
SO.4.1 Reports sent by ENEE to SEN, SERNA, and SEFIN through the new MRV system on climate change mitigation and adaptation measures	#Reports	0	2024	0	0	0	0	1	1	Reports generated by the system	IDB CLIMA KPI3 System is implemented for GPCIE

OUTPUT MATRIX

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final project target	Means of verification	Comments
				2025	2026	2027	2028	2029			
Component 1. Investments in sustainable electric power infrastructure that are low in emissions and resilient to climate change											
P1.1 Solar farms built and in operation that include climate change adaptation measures	Number	0	2024	0	0	0	17	0	17	CND operational report	
P1.2 Battery Energy Storage Systems (BESS)		0	2024	0	0	0	3	0	3		
P1.3 Enhancement/reinforcement of substation distribution infrastructure with climate change adaptation criteria		0	2024	0	0	15	15	15	45	Work delivery and acceptance certificate	
P1.4 Capacitor banks installed	Megavolt-amps reactive	0	2024	0	80	80	160	0	320		
Component 2. Institutional strengthening for the design, operation, and supervision of projects with a climate change approach											
P2.1 Workshops on design and operation of SPV and BESS systems with climate change adaptation and mitigation considerations	#Workshops	0	2024	0	1	0	0	0	1	Report	
P2.2 Training in using software procured to design NCRE projects	#Trainings	0	2024	0	1	0	0	0	1		
P2.3 Modernization and strengthening of the hydroclimatological network in the Lake Yojoa and El Cajón basins	#Technical reports	0	2024	0	0	1	0	0	1	Report	[Required link 2]
P2.4 ENEE Small Power Plant Unit strengthened		0	2024	0	0	1	1	0	2		
P2.5 Assessment studies of wind energy resources	#Studies	0	2024	0	0	2	0	0	2	Study	[Required link 2]
P2.6 Prefeasibility studies for geothermal project development		0	2024	0	0	0	1	0	1		
P2.7 Technical Guide prepared to include climate change mitigation and adaptation measures in future ENEE investments	#Guides	0	2024	0	0	1	0	0	1	Technical guide prepared	

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final project target	Means of verification	Comments
				2025	2026	2027	2028	2029			
P2.8 Training to strengthen energy sector entities in formulating and executing investment/expansion plans with climate change adaptation and mitigation considerations	#Trainings	0	2024	0	0	0	8	0	8	Training report	
P2.9 Formulation of ENEE climate policy aligned with its environmental and social policy and national climate change policies (NDCs) and the National Decarbonization and Energy Strategy	#Technical reports	0	2024	0	0	0	1	0	1	Policy issued	
P2.10 ENEE financial planning document that promotes access to new sources of green and climate financing	#Documents	0	2024	0	1	0	0	0	1	Document	
P2.11 ENEE environmental and climate policy formulated and aligned with the IDB CLIMA Roadmap		0	2024	0	0	1	0	0	1		
P2.12 Training in building/ installing photovoltaic systems (SPV construction/basic maintenance) to persons in the project's area of influence, giving priority to women	#Trainings	0	2024	0	1	0	0	0	1	Training report	[Required link 2]
P2.13 Training in building/installing photovoltaic systems to Indigenous and/or Afro-Honduran persons, and youth in the project's area of influence		0	2024	0	1	0	0	0	1		
P2.14 Workshops/trainings on positive masculinity and gender in the program's areas of intervention		0	2024	0	1	0	0	0	1		
P2.15 Action plan to address findings in ENEE's financial statements that lead auditors to decline to express their opinion	#Plans	0	2024	0	0	1	0	0	1	Proposal sent by the Manager of ENEE to the IDB and SEFIN	

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final project target	Means of verification	Comments
				2025	2026	2027	2028	2029			
P2.16 Environmental and social technical studies for access projects completed	#Studies	0	2024	0	0	3	0	0	3	Studies conducted	Office of the Environment
Component 3. Strengthening climate change monitoring and reporting (CCMR) capacities											
P3.1 Trainings for energy sector entities (ENEE, SEN, SERNA, and SEFIN) in: (i) climate MRV; (ii) measuring impact and efficiency of mitigation and adaptation investments; and (iii) green debt market international standards	#Trainings	0	2024	0	0	0	3	0	3	Project Management Unit-IDB training report	Trainings sponsored by the IDB
P3.2 Contracting an individual for climate change issues to strengthen the ENEE environmental unit	#Persons	0	2024	0	1	0	0	0	1	Office of the Environment/HR report	Office of the Environment
P3.3 Enhanced and automated institutional planning system to monitor and report on mitigation and adaptation measures of ENEE investment projects, which feed into the National Climate Change Monitoring system and generate reports by stakeholders	#Systems	0	2024	0	0	1	0	0	1	Reports from GPCIE	Office of the Environment [Required link 2]

Country: Honduras

Division: INE/ENE

Operation: HO-L1245

Year: 2024

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: National Electric Power Company (ENEE)

Operation name: IDB CLIMA: Decarbonization of the National Electric Power Company (ENEE) and Support for Financial Sustainability

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the operation¹

<input checked="" type="checkbox"/> Budget	<input checked="" type="checkbox"/> Reports	<input checked="" type="checkbox"/> Information systems	<input type="checkbox"/> National Competitive Bidding (NCB)
<input checked="" type="checkbox"/> Treasury	<input type="checkbox"/> Internal audit	<input type="checkbox"/> Shopping	<input checked="" type="checkbox"/> Other
<input checked="" type="checkbox"/> Accounting	<input checked="" type="checkbox"/> External control	<input type="checkbox"/> Individual consultants	<input type="checkbox"/> Other

2. Fiduciary execution mechanism

<input checked="" type="checkbox"/>	Special features of fiduciary execution	<p>Bank Procurement Policies (GN-2349-15 and GN-2350-15) will apply, and country systems (HONDUCOMPRAS) will only be used for publishing procurement notices and for purchases through the Electronic Catalogue/Framework Agreement and limited bidding for amounts within the Shopping threshold for Honduras, for contracting goods, works, or nonconsulting services, in accordance with the approval by the Bank's Board of Executive Directors. The operation's procurement plan will indicate the contracting to be executed through the country system.</p> <p>The policy set forth in document OP-273-12 and its supplemental guides will apply in matters of financial management. The government will use the Integrated Financial Management System (SIAFI)/International Projects Executing Units (UEPEX) as the financial management system. The operation's management will be conducted at the level of the Bank through the Client Portal platform.</p> <p>This is the first individual operation for US\$50 million under a CCLIP for US\$200 million. It includes SREP reimbursable financing (US\$5.1 million) and nonreimbursable financing (US\$2 million). It is also an operation under the results-driven pilot program that rewards development effectiveness in biodiversity and climate change investment loan operations (IDB CLIMA Pilot Program).</p> <p>To address the risk of forced labor in the solar panel supply chain, IDB Group measures (GN-3062-1) will be applied in project bidding documents that include the procurement of solar panels.</p>
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¹ Any system or subsystem that is approved subsequently may be applicable to the operation, in accordance with the terms of validation by the Bank.

3. Fiduciary capacity

Fiduciary capacity of the executing agency	The executing agency's fiduciary capacity assessment is medium-high for ENEE, according to the institutional capacity assessment platform. ENEE's assessment was completed in November 2023 in the framework of project HO-L1243, and its capacity for this operation remains at the same level.
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4. Fiduciary risks and risk response

Risk taxonomy	Risk	Risk level	Risk response
Human resources	Increase in the workload in ENEE technical areas, due to execution of several projects simultaneously and other routine tasks.	High	(1) Hire new technical staff (minimum 4 persons). (2) Create a technical work team devoted to program execution.
Internal processes	If key procurement processes, such as those for the solar farms, (bidding document preparation, bid evaluation, award of contract, and contracting) are not started prior to loan approval, there could be delays in program execution.	Medium-Low	(1) Undertake advance procurement in accordance with Bank procurement policies.
Economic financial	If increases in bid prices are not mitigated in advance, estimated budgets may not cover them.	High	Include contingencies. Secure estimates in advance to prevent price fluctuations.

5. **Policies and guidelines applicable to the operation:** Documents GN-2350-15, GN-2349-15, OP-272-3, GN-2538-35, and for financial management, OP-273-12 and its supplemental guides.

6. **Exceptions to policies and guidelines:** Not applicable.

II. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE LOAN CONTRACT

<p>Exchange rate: For the purposes of Article 4.10 of the General Conditions, the parties agree that the exchange rate to be used will be the rate stipulated in Article 4.10(b)(i). For the purpose of determining the equivalency of expenditures incurred in local currency chargeable against the local contribution, or for reimbursement of expenditures chargeable against the loan, the exchange rate will be the rate prevailing on the effective date on which the borrower, executing agency, or any other person or corporation with delegated authority to incur expenditures makes the respective payments to the contractor, vendor, or beneficiary.</p>
<p>Type of audit: Audited financial statements.</p>
<p>Special contractual conditions precedent to the first disbursement: (i) a subsidiary agreement has entered into force between the borrower and the executing agency for transferring loan proceeds and other execution obligations; (ii) the executing agency has approved and implemented the program Operating Regulations in the terms previously agreed upon with the Bank, which will include as annexes the Strategic Environmental and Social Management Framework (SESMF), the Environmental and Social Management System (ESMS), and the Environmental and Social Action Plan; (iii) the executing agency has selected a general coordinator, a technical coordinator, an evaluation and monitoring specialist, a finance specialist, a procurement specialist, a contract management specialist, an environmental specialist, and a social specialist, in keeping with the profiles described in the program Operating Regulations for the program coordination unit (PCU); (iv) the executing agency has created a photovoltaic and battery storage project development team and has designated, among the executing agency staff, a team with at least two solar energy and storage experts, in accordance with the profiles described in the program Operating Regulations; (v) a team has been created for executing institutional strengthening and monitoring, reporting, and verification (MRV) (Components 2 and 3) with the designation of at least two full-time experts; (vi) a hydrology and climate modeling unit, which has experts in hydrology, geology, climate scenarios, solar and wind energy resources, as well as hydroclimatological station maintenance, has been established at ENEE; and (vii) the Office of the Environment has included one climate adaptation professional on its team with the profile described in the program Operating Regulations.</p>

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	<p>Bidding documents</p>	<p>For works, goods, and nonconsulting services procured in accordance with the Procurement Policies (GN-2349-15) and subject to international competitive bidding (ICB), the Bank's standard bidding documents or the documents agreed upon between the executing agency and the Bank will be used. Likewise, the selection and contracting of consulting services will proceed in accordance with the Policies for the Selection and Contracting of Consultants (GN-2350-15) using the standard request for proposals issued by the Bank or the request for proposals agreed upon between the executing agency and the Bank. For national bidding, the procurement document agreed upon between the Procurement Regulatory Office of the State of Honduras and the Bank will be used. Review of technical specifications and terms of reference for procurement during preparation of the selection processes is the responsibility of the project's sector specialist. This technical review</p>
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		may be ex ante and is independent of the procurement review method and the use of country systems.
<input checked="" type="checkbox"/>	Use of country systems	Procurement through the Electronic Catalogue/Framework Agreement and limited bidding will be used for purchases envisaged for amounts within the Shopping threshold for Honduras, for contracting goods, works, or nonconsulting services, in accordance with the approval of the Bank's Board of Executive Directors. The operation's procurement plan will indicate the contracting to be executed through the country system within the scope approved.
<input checked="" type="checkbox"/>	Procurement supplemental support	A consultant who is an expert in procurement will be needed to support the ENEE technical team during the initial stage of the project for the early preparation of bidding documents, bid evaluation, and contracts for the design, construction, installation, and launch of solar farms through advance procurement.
<input checked="" type="checkbox"/>	Recurrent costs	Recurrent costs (operating expenses) and transfers needed to launch the project will be made in accordance with the executing agency's administrative procedures. These procedures will be reviewed and accepted by the Bank, provided they do not violate the principles of economy, efficiency, and competition in accordance with the guidelines for handling recurrent costs and the policy on eligible expenditures (GN-2331-5, as updated).
<input checked="" type="checkbox"/>	Advance procurement	Bidding documents will be prepared, in keeping with IDB policies, prior to the Board of Executive Director's approval of the loan (November 2024). The call for bids, bid evaluation, and contract award and execution will also move ahead for the: (i) design, construction, installation, and launch of solar farms; and (ii) supervision of solar farm construction. This will be carried out through advance procurement, as provided for in the procurement plan. Eligible expenditures incurred with ENEE's own resources between the approval of the program by the Board of Executive Directors and the date on which eligibility is declared for the first disbursement of the financing, for an estimated amount totaling US\$38.8 million, may be disbursed using the expenditure reimbursement method.
<input checked="" type="checkbox"/>	Procurement supervision	The supervision method will be ex ante, except in those cases where ex post supervision is warranted. Whenever procurements are executed using the country system, the country system will also be used for supervision. The supervision method, whether (i) ex ante, (ii) ex post, or (iii) country system, will be determined for each selection process. Ex post reviews will be conducted, preferably each year, in accordance with the project supervision plan, which is subject to change during project execution. The types and threshold amounts of procurements that may be subject to ex post review, are the following:

		Executing agency	Works	Goods/Services	Consulting services
		ENEE	US\$150,000	US\$25,000	Competitive individual consultancies
<input checked="" type="checkbox"/>	Records and files	The borrower, through the executing agency, will keep the records and files of all contract-related documents during the project execution period and up to three years after the last disbursement of the loan. These documents are subject to review by the Bank or its consultants and will include and not be limited to the duly executed original contract, the analysis of the respective proposals, and the contract award recommendation. The borrower will submit these documents to the Bank upon request.			

Main procurement items

Description of the procurement	Selection method	New procedures / tools	Estimated date	Estimated amount US\$
Goods				
Procurement of equipment and construction of wind stations	ICB		08/29/2026	600,000.00
Procurement of compensation capacitor banks	ICB		12/25/2025	4,600,000.00
Procurement of solar farms with protection, control, and metering circuits for electricity distribution and BESS storage system, including design, construction, installation, and launch	ICB		12/16/2024	38,800,000.00
Firms				
Design of transmission projects	Quality- and Cost-Based Selection (QCBS)		11/01/2025	430,000.00
Consultant to complete environmental and social studies	QCBS		11/01/2025	520,000.00
External supervision of the solar farm construction project	QCBS		1/30/2025	1,800,000.00
Individuals				
Contracting of environmental engineer	Individual Consultant		11/07/2025	115,000.00

Description of the procurement	Selection method	New procedures / tools	Estimated date	Estimated amount US\$
	Selection (3CV)			
Formulation of the ENEE climate policy	Individual Consultant Selection (by open invitation)		12/14/2025	50,000.00
Climate change specialist for the ENEE Office of the Environment	Individual Consultant Selection (by open invitation)		11/09/2025	120,000.00

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

<input checked="" type="checkbox"/>	Programming and budget	Although no budget execution challenges are foreseen due to potential restrictions on allocations that could affect execution timetables, additional staff with experience in IDB project financial management will need to be hired to mitigate the increased workload this new operation will bring about.
<input checked="" type="checkbox"/>	Treasury and disbursement management	Prior to the first disbursement, a special account will be established in the Central Bank of Honduras, together with its respective operational account register, which will be part of the Single Treasury Account. Disbursements will be made electronically through the Client Portal and the US dollar will be the currency in which the operation is managed. The operation, except where specific exceptions are made, will work with a 6-month financial planning period. Advance of funds is the preferential disbursement method, although other methods may be used. For future advances, 80% of the cumulative balances pending justification will be accounted for, and flexibility, where needed, would be subject to project team evaluation.
<input checked="" type="checkbox"/>	Accounting, information systems, and reporting	The International Public Sector Accounting Standards are the specific accounting standards that will be followed. To record the operation's accounting transactions, the UEPEX/SIAFI will be the technology platform used, and project accounting will be done on a cash basis. Reports will be issued by the same UEPEX/SIAFI system. The program Operating Regulations with the documented definition of workflows and internal controls will be used as a complement to the policies and guides applicable to the operation.

☒	Internal control and internal audit	The program Operating Regulations will establish the internal audit function applied to the project. The executing agency exercises this function, while the National Office for Comprehensive Development of Internal Controls and the Superior Court of Accounts (TSC); supervises it. Nevertheless, for the purposes of the operation, the project auditor will complete the audit.
☒	External control and financial reports	The borrower and/or the executing agency will select and contract the external audit services pursuant to the terms of reference previously agreed upon between the borrower and/or the executing agency and the Bank. The terms of reference will set forth the type, timing, and scope of the review. The external auditor selected and the auditing standards to be applied will be acceptable to the Bank. In keeping with the nature and risk level of the operation, audited financial reports, to be prepared by a firm the Bank or the TSC deems eligible, will be required. The reports may be adjusted during the life of the project depending on the results of Bank supervision. The audited financial reports will have a cut-off date, and the deadline for their submission will be 120 days following the close of the fiscal year. The deadline for the final report is 120 days following the planned date of the last disbursement.
☒	Financial supervision of the operation	The operation requires financial supervision by the Bank's fiduciary team. The Bank team will also be responsible for conducting on-site and desk reviews and inspections of the project's financial and accounting matters on a regular basis. The Bank may call upon the contracted audit firm or the TSC to assist it with this supervision.

IDB CLIMA: DECARBONIZATION OF THE NATIONAL ELECTRIC ENERGY COMPANY (ENEE) AND SUPPORT FOR FINANCIAL SUSTAINABILITY

HO-L1245

CERTIFICATION

The Grants and Co-Financing Management Unit (ORP/GCM) certifies that the referenced operation will be financed through:

Funding Source	Fund Code	Currency	Amount Up to
Strategic Climate Fund	SCX	USD	5,100,000

For operations financed by funds where the Inter-American Development Bank (IDB) does not control liquidity, the availability of resources is contingent upon the request and the receipt of the resources from the donors. Additionally, in case of operations financed by funds that require a post-approval agreement with the donor, the availability of resources is contingent upon the signature of the agreement between the Donor and the IDB. (i.e.: Project Specific Grants (PSG), Financial Intermediary Funds (FIF), and single donor trust funds).

Certified by:

Original Signed

October 1, 2024 | 8:43 PM EDT

Miguel Felipe Caicedo Sierra on behalf of
Maria Fernanda Garcia Rincon
Chief
Grants and Co-Financing Management Unit
ORP/GCM

Date

IDB CLIMA: DECARBONIZATION OF THE NATIONAL ELECTRIC ENERGY COMPANY (ENEE) AND SUPPORT FOR FINANCIAL SUSTAINABILITY

HO-G1265

CERTIFICATION

The Grants and Co-Financing Management Unit (ORP/GCM) certifies that the referenced operation will be financed through:

Funding Source	Fund Code	Currency	Amount Up to
Strategic Climate Fund	SCX	USD	2,000,000

For operations financed by funds where the Inter-American Development Bank (IDB) does not control liquidity, the availability of resources is contingent upon the request and the receipt of the resources from the donors. Additionally, in case of operations financed by funds that require a post-approval agreement with the donor, the availability of resources is contingent upon the signature of the agreement between the Donor and the IDB. (i.e.: Project Specific Grants (PSG), Financial Intermediary Funds (FIF), and single donor trust funds).

Certified by: _____ Original Signed _____ October 1, 2024 | 8:43 PM EDT
Miguel Felipe Caicedo Sierra on behalf of _____ Date
Maria Fernanda Garcia Rincon
Chief
Grants and Co-Financing Management Unit
ORP/GCM

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/24

Honduras. Conditional Credit Line for Investment Projects (CCLIP)
“Decarbonization and Sustainability in the Just Energy Transition of Honduras”
(HO-O0015)

The Board of Executive Directors

RESOLVES:

1. To authorize the President of the Bank, or such representative as he shall designate, to enter into such agreement or agreements as may be necessary with the Republic of Honduras, to establish the Conditional Credit Line for Investment Projects (CCLIP) “Decarbonization and Sustainability in the Just Energy Transition of Honduras” (HO-O0015) (the “Credit Line”) for an amount of up to US\$200,000,000 chargeable to the resources of the Ordinary Capital of the Bank.

2. To establish that the resources allocated to the Credit Line shall be used to finance individual operations under the Credit Line, in accordance with: (a) the objectives and regulations of the Conditional Credit Line for Investment Projects approved by Resolution DE-58/03, as amended by Resolutions DE-10/07, DE-164/07, DE-86/16 and DE-98/19; (b) the provisions set forth in documents GN-2564-3 and GN-2246-13; and (c) the terms and conditions included in the proposal for the corresponding individual operation.

(Adopted on _____ 2024)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/24 and DE-___/24

Honduras. Loan ___/BL-HO and Nonreimbursable Financing GRT/___-HO to the Republic of Honduras. IDB CLIMA: Decarbonization of the National Electric Power Company (ENEE) and Support for Financial Sustainability. First Individual Operation under the Conditional Credit Line for Investment Projects (CCLIP) HO-O0015

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: (1) a financing aimed at cooperating in the execution of the program “IDB CLIMA: Decarbonization of the National Electric Power Company (ENEE) and Support for Financial Sustainability”, which constitutes the first individual operation under the Conditional Credit Line for Investment Projects (CCLIP) HO-O0015, approved by Resolution DE-___/___ on _____. Such financing will be chargeable to the Bank’s Ordinary Capital (OC) resources in the following manner: (i) up to the amount of US\$17,500,000, subject to concessional financial terms and conditions (“Concessional OC”); and (ii) up to the amount of US\$32,500,000, subject to financial terms and conditions applicable to loan operations financed from the Bank’s regular program of OC resources (“Regular OC”), as indicated in the Project Summary of the Loan Proposal, and subject to the Special Contractual Conditions of said Project Summary; and (2) a nonreimbursable financing subject to the achievement and verification of key performance indicators, in accordance with the requirements established in the “Results-Driven Pilot Program that Rewards Development Effectiveness in Biodiversity and Climate Investment Loan Operations (IDB CLIMA Pilot Program)” (documents AB-3386 and GN-3168-6). Such nonreimbursable financing will be for the amount of up to US\$2,500,000 from the resources of the IDB Grant Facility, and will be subject to the Terms and Financial Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _____ 2024)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/24

Honduras. Loan ____/SX-HO to the Republic of Honduras
IDB CLIMA: Decarbonization of the National Electric
Power Company (ENEE) and Support for
Financial Sustainability

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, as implementing entity of the Scaling Up Renewable Energy Program in Low Income Countries (SREP) of the Strategic Climate Fund (SCX), 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 financing to cooperate in the execution of the program "IDB CLIMA: Decarbonization of the National Electric Power Company (ENEE) and Support for Financial Sustainability". Such financing will be up to the amount of US\$5,100,000, chargeable to the resources of the SCX/SREP, 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 __ _____ 2024)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/24

Honduras. Nonreimbursable Investment Financing GRT/SX-___-HO
IDB CLIMA: Decarbonization of the National Electric Power
Company (ENEE) and Support for Financial Sustainability

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, as Administrator of the Scaling Up Renewable Energy Program in Low Income Countries (SREP) of the Strategic Climate Fund (SCX), to enter into such agreement or agreements as may be necessary with Republic of Honduras, for the purpose of granting it a nonreimbursable investment financing for a sum of up to US\$2,000,000 chargeable to the resources of the SCX/SREP, and to adopt any other measures as may be pertinent for the execution of the project proposal contained in document PR-_____.

(Adopted on _____ 2024)