

Technical Cooperation Document

I. Basic Information for TC

Country/Region:	HONDURAS
TC Name:	IDB CLIMA: Support the development and execution of an IDB CLIMA Pilot Program in Honduras (HO-L1245)
TC Number:	HO-T1464
Team Leader/Members:	Brusa, Federico (CSD/CCS) Team Leader; Jacome Montenegro, Carlos Alberto (INE/ENE) Alternate Team Leader; Juarez Olvera, Mariel (CSD/CCS) Alternate Team Leader; Rios Galvez, Ana R. (CSD/RND) Alternate Team Leader; Aguiluz Boquin, Alejandro Enrique (CID/CHO); Carvallo Vazque Agustina (CSD/CCS); Mendoza Tercero Nina Clarissa (CID/CHO); Ortiz De Zarate Maria Laura (CSD/CCS); Lopez Lopez Raquel Patricia (CSD/CCS); Gomez, Juan Carlos (CSD/CCS); Gomez Gomez De La Torre Mar (CSD/CCS); Landazuri-Levey, Maria C. (LEG/SGO)
Taxonomy:	Operational Support
Operation Supported by the TC:	HO-L1245
Date of TC Abstract authorization:	25 Sep 2024
Beneficiary:	Honduras - ENEE
Executing Agency and contact name:	Inter-American Development Bank
Donors providing funding:	OC SDP Window 2 - Sustainability(W2A)
IDB Funding Requested:	US\$400,000.00
Local counterpart funding, if any:	US\$0
Disbursement period (which includes Execution period):	24 months
Required start date:	December 15, 2024.
Types of consultants:	Firms and individual consultants
Prepared by Unit:	CSD/CCS-Climate Change
Unit of Disbursement Responsibility:	CID/CHO-Country Office Honduras
TC included in Country Strategy (y/n):	No
TC included in CPD (y/n):	Yes
Alignment to the Update to the Institutional Strategy 2024-2030:	Environmental sustainability

II. Description of the Associated Loan/Guarantee

- 2.1 This technical cooperation (TC) is designed to support the operation HO-L1245 “IDB CLIMA: Decarbonization of the National Electric Energy Company (ENEE) and support for financial sustainability.” The objective of the operation is to support the decarbonization and climate resilience of the energy generation matrix, improve the financial sustainability of the energy sector, and strengthen capacities to consider debt issuances in green capital markets to meet its climate commitments. The borrower of the operation is the Republic of Honduras, and the Executing Agency (EA) is ENEE. The IDB has extensive knowledge of the Honduran energy subsector. In the last decade, it has financed works to strengthen the National Transmission System (NTS), modernize and re-power generation infrastructure, and increase energy access.

Noteworthy programs include Support for the Integration of Honduras into the Regional Energy Market (REM) and Renewable Energy (RE) Access to the Grid (3103/BL-HO, 2013-2021, and GRT/SX-16864-HO, 2018); Support for the National Energy Transmission Program (4598/BL-HO and 4599/SX-HO, 2018); Rehabilitation and Repowering of the Cañaveral-Rio Lindo Hydropower Complex (3435/BL-HO, 2015, closed in 2023); Renovation of the Francisco Morazán Hydropower Plant to Facilitate RE Integration (5132/BL-HO, 2020); and the Rural Electrification Program (GRT/SX-17123-HO, 2018), which financed the construction of mini-grids on Guanaja Island and La Mosquitia, both of which withstood Hurricane Julia (2022), all executed by ENEE.

- 2.2 While the Government of Honduras aims to have a sustainable energy sector, it faces challenges related to: (i) climate vulnerability and a power generation matrix dependent on fossil fuels; (ii) low financial and operational efficiency of ENEE; and (iii) limited generation and exchange of information for Monitoring, Reporting, and Verification (MRV) of climate achievements and impacts, as well as defining projects that meet climate goals. Therefore, the project will support leveraging the country's solar resources through the installation of resilient Solar Photovoltaic (SPV) parks and Battery Energy Storage Systems (BESS) on ENEE-owned substations and hydropower plant grounds. Substations will also be reinforced with capacitive compensation banks to support the Regional Operator Entity's (EOR) investment plan in NTS reinforcements. The project will finance pre-investment for generation and transmission projects to be executed by the private sector, aiming for long-term impact. The project will implement smart metering and cybersecurity, train Afro-Honduran women and indigenous peoples, and strengthen ENEE's technical capacity as the EA. Additionally, it will support ENEE by contributing to decarbonization through the design of Variable Renewable Energy (VRE), the development of climate investment portfolios, and the implementation of climate MRV systems; and it will assist the executor in its debt restructuring efforts through the issuance of green debt. The project will enhance the resilience of the energy system by diversifying its matrix and contributing to the improvement of ENEE's financial situation by reducing generation costs, energy losses, and developing capacities to access the green debt market.

III. Objectives and Justification of the TC

- 3.1 This TC aims to support Honduras in the design of its first project (HO-L1245) under the IDB CLIMA Pilot Program. The IDB CLIMA Pilot Program aims to incentivize sector-driven investments that will help accelerate sovereign borrowers' access to green thematic capital markets. To attain this goal, IDB CLIMA offers a grant to borrowers that achieve results through sectoral investments measured by key performance indicators that: (i) reduce development gaps while delivering impact in terms of biodiversity and climate; (ii) strengthen the sector's capabilities to develop sectoral project pipelines that include climate and/or biodiversity considerations; and (iii) strengthen sector-driven biodiversity and climate monitoring, reporting and verifications systems to meet international climate, biodiversity, and thematic green debt standards.
- 3.2 To define actions associated with investments (ii) and (iii), borrowers must first assess their existing capacities in terms of the Green Transition Framework (GTF). The GTF follows a sequential three-stage approach that allows borrowers to benefit from IDB's technical and financial support as they evolve from an initial stage—where they have limited capacities to access green thematic debt markets—to a stage where they can

systematize the issuance of green and thematic debt. Therefore, to achieve its objective, the TC must: (i) assess the capacities of ENEE and the country as a whole to place them in the appropriate GTF stage; (ii) support the strengthening of these capacities so that the borrower can progress within the GTF; and (iii) conduct applied research activities to contribute to the strengthening of Honduras' first IDB CLIMA pilot project while simultaneously informing the development of the GTF, so it can better serve future borrowers of the IDB CLIMA Pilot Program.

- 3.3 The IDB has designed an Assessment Questionnaire to evaluate the capacity gaps of borrowers in integrating climate change and biodiversity into their sectoral investments, identifying and designing large-scale nature and/or climate positive sectoral investments, and conducting climate and/or biodiversity MRV. The GTF Assessment Questionnaire will be complemented by a Roadmap, jointly developed between the IDB team and the borrower, to identify priority areas of intervention for strengthening the borrower's capacities to meet the General Objective and Specific Objectives of the IDB CLIMA Pilot Program. The Roadmap will help design interventions in a way that is better tailored to the country's needs, priorities, and capacities, and will also help more precisely define the necessary studies and activities to strengthen the country's sectoral and/or national capacities.
- 3.4 In that sense, this TC will address the barriers to incorporate climate and biodiversity considerations into development financing, namely: (i) lack of specialized sectoral knowledge on the development of climate and nature-positive projects that address specific development challenges (this gap translates into a lack of capacity to formulate policies and investments that integrate these dimensions); (ii) lack of sectoral motivation to incorporate climate and biodiversity aspects, which hinders the identification and design of investments at the necessary scale to meet national targets, making it difficult to issue green and thematic debt (for example, due to a lack of clear mandates in terms of climate change, and the absence of strategies and guidelines for climate financing and investment); and (iii) lack of capacities to monitor, report, and verify the impacts of climate and biodiversity actions in line with international requirements and green and thematic debt markets (for example, due to a lack of active monitoring of climate interventions in terms of budget and management systems). MRV systems have limitations in the quantity, quality, and frequency of data.
- 3.5 The studies developed within the framework of this TC will help generate more evidence to address these knowledge gaps and identify effective strategies to incentivize access to thematic markets and attract concessional financing.
- 3.6 This TC aligns with the "IDB Group Institutional Strategy: Transforming for Scale and Impact" (CA-631) as it: (i) intends to *improve financial instruments and increasing resource mobilization*: the TC will strengthen the capacities of national climate MRV systems, which, in turn, will help countries access green and thematic debt markets and mobilize large-scale capital to address climate challenges; and (ii) *addressing climate change*: the TC will help reinforce sectoral and/or national capacities to develop and implement the IDB CLIMA pilot project, which rewards countries for achieving nature- and climate-related objectives. This is directly aligned with one of the three main goals of the Institutional Strategy: combating and adapting to climate change, reducing emissions, and preserving biodiversity, while strengthening resilience. This TC is also aligned with Priority 3 of the *IDB Group Country Strategy with Honduras 2019-2022* (GN-2944, paragraphs 1.7 and 1.8) which has been extended until December 31st, 2024 (GN-2468-9). Climate Change is expected to remain a priority of the updated country strategy.

IV. Description of Activities/Components and Budget.

- 4.1 **Component 1. Evaluation of Honduras’ and the ENEE’s capabilities (US\$130,000).** The activities under this component will contribute to the compilation of evidence and an analysis that will provide an accurate picture of Honduras’ and ENEE's capabilities as assessed under the IDB CLIMA Pilot Program GTF Assessment Questionnaire. These capacity gaps are identified with the objective of helping ENEE achieve the objectives set out in the loan that this CT supports. This component will finance consulting services to: (i) perform a diagnostic of ENEE's institutional capacities; (ii) conduct quantitative and qualitative research in the country to identify climate vulnerabilities and assess adaptive capacity, taking into account climate modeling data from the IPCC or similar sources; (iii) identify policies that could help address these vulnerabilities in line with national priorities and use them to develop an adaptation strategy for the energy sector based on vulnerability and adaptive capacity analysis; (iv) define the interventions that should be prioritized; and (v) develop a Roadmap for ENEE with a focus on decarbonization and resilience.
- 4.2 **Component 2. Strengthening sectoral and/or national capacities (US\$190,000).** The activities under this component will help strengthen sectoral and/or national capabilities to develop and implement the IDB CLIMA pilot project, and thus advance the GTF stages, in line with the capacity gaps identified with the application of the IDB CLIMA Pilot Program GTF Assessment Questionnaire. This component will finance consulting services to: (i) support the creation of specific technical teams or strengthen teams to meet type 2 and 3 key performance indicators; (ii) pre-feasibility and pre-investment studies to ensure that investments are aligned with decarbonization and resilience objectives; (iii) establish metrics and methods for continuous monitoring and evaluation of the impact and progress of the pilot project; and (iv) provide comprehensive training sessions, workshops and seminars to enhance technical knowledge and practical skills related to the Roadmap.
- 4.3 **Component 3. Applied research to continuously improve Honduras’ pilot project and simultaneously strengthen the GTF (US\$80,000).** The activities under this component will collect evidence of lessons learned through the Honduras experience to strengthen the pilot project and the Assessment Questionnaire and Roadmap through learning by doing. This component will finance consulting services for: (i) specific support related to the alignment of this operation with the IDB LIMA Pilot Program; (ii) dissemination and training workshops for strengthening the Assessment Questionnaire and Roadmap, setting goals and indicators, and initial reporting efforts. The results of the studies will support the KPIs and their targets, one for each Specific Objective of the IDB CLIMA Pilot Program.
- 4.4 The total estimated cost of this operation is US\$400,000, which will be financed with resources from Window 2 (Sustainability) of the Ordinary Capital Strategic Development Program (OC SDP).

Indicative Budget (\$US)

Activity/Component Description	IDB Funding	Total
Component 1. Evaluation of the capacities of Honduras and the ENEE.	130.000	130.000
Component 2. Strengthening sectoral and/or national capacities	190.000	190.000
Component 3. Applied research to continuously improve Honduras’ pilot project and simultaneously strengthening the GTF.	80.000	80.000
Total	400,000	400.000

V. Executing Agency and Execution Structure

- 5.1 While originally the TC was going to be executed by national authorities, the government has requested that IDB act as the executing agency considering limited institutional capacities and constraints faced by the government considering recent extreme weather events. Given the Bank's proven track-record in developing operational and institutional capacity-building activities, the Bank will execute this TC and carry out all contract-related activities, as stated in the guidelines and requirements established in the Technical Cooperation Policy (GN-2470) and in the TC Operational Guidelines, annex II, paragraph 2.2, subparagraph i. (GN-619-4). The Bank is considered to have the adequate systems to guarantee the proper execution of the operation and ensure the sustainability of the implementation of the project in line with the "Operational Guidelines for Technical Cooperation Products" (OP-619-4). Additionally, the Climate Change Division of the IDB (CSD/CCS) will coordinate with other IDB Group departments and liaise with other key initiatives and stakeholders involved in the design, implementation, and financing of IDB-CLIMA pilot projects, especially with ENE. Supervision will be carried out by the CSD/CCS Team Leader.
- 5.2 All activities to be executed under this TC have been included in the Procurement Plan (Annex IV) and will be executed in accordance with the Bank's established procurement methods, namely: (i) hiring of individual consultants, as established in the Complementary Workforce Document (AM-650); and (ii) contracting of services in accordance with the Institutional Procurement Policy (GN-2303-33) and its associated guidelines. The Bank will oversee the consulting services. This will ensure the delivery of high standards reports and ensure adherence to project's objectives. Additionally, the Bank will actively coordinate with relevant institutions to facilitate effective stakeholder engagement.
- 5.3 CSD/CCS has substantial experience in developing climate change-related research and dissemination activities, as well as integrating climate results and goals into the IDB Group's project origination and execution activities. The Bank has substantial experience supporting the design of financial solutions to mobilize blended finance and leverage private capital to address challenges related to nature preservation and climate action. These experiences include work on debt-for-nature swaps, currency hedging strategies, green financial taxonomies, issuances of green use-of-proceeds and sustainability-linked bonds, and the first sovereign sustainability-linked bond (SSLB) that includes a discount mechanism. The IDB CLIMA Pilot Program, in particular, builds on IDB research results obtained through operations ATN/AC-18245-RG, ATN/OC-18246-RG, and ATN/MC-18254-RG.
- 5.4 The Bank is considered to have the adequate systems to guarantee the proper execution of the operation and ensure the sustainability of the implementation of the project in line with the "Operational Guidelines for Technical Cooperation Products" (OP-619-4). The activities financed through this TC correspond to the eligible areas under these Guidelines as they involve (i) "the preparation, financing, and execution of development plans and projects", and (ii) the "development and advanced training of personnel". CSD/CCS will be responsible for the technical supervision and administration of this operation, with the support of other specialists from the Energy and Connectivity, Capital Markets and Financial Institutions Divisions. Specifically, the execution and supervision of this CT, as well as the achievement of the established objectives, will be the responsibility of the CSD/CCS Specialist from the Country Office

in Honduras, with the support of the IDB CLIMA team. Likewise, coordination will be carried out with ENEE to designate specific focal points in charge of accompanying the development of the CT.

- 5.5 The principal functions and responsibilities of the IDB will be: (i) to prepare the work plan and supervise the schedule of activities; (ii) to carry out the financial administration of the project; (iii) to coordinate the preparation of the Terms of Reference of the consultancies to be contracted and to carry out the selection and contracting of the required consultancy services; (iv) to prepare reports on the progress of the project; and (v) to prepare and update the Procurement Plan (PA).
- 5.6 All activities to be carried out under this TC have been included in the Procurement Plan (Annex IV) and will be contracted in accordance with the Bank's established procurement methods, namely: (i) hiring of individual consultants, as established in the Complementary Workforce Document (AM-650); and (ii) contracting of services in accordance with the Institutional Procurement Policy (GN-2303-33) and its associated guidelines.

VI. Important Risks

- 6.1 Three main risks are identified: (i) the complexity of the objectives of the IDB CLIMA Pilot Program could make it difficult to accurately assess the capacities and the corresponding strengthening needed to meet the objective of the IDB CLIMA Pilot Project, which trigger the reward, within the designated time frame and budget; (ii) the strengthening of ENEE's capacities could be slower than expected, considering the need to develop a multi-sector coordination instance to properly execute this operational support TC, which would slow down progress on the IDB CLIMA Roadmap; and (iii) difficulties associated with the implementation of the credit operation and institutional or orientation changes by the Government of Honduras regarding ENEE's work areas also represent a risk to achieving the proposed objectives.
- 6.2 The mitigation measures foreseen are: (i) to have the direct support of the IDB Climate team throughout the execution of the project and to leave flexibility as part of the design and implementation to address areas of strengthening not identified during the initial evaluation; (ii) to support investments in human capital from the TC, including within other ministries, and to foresee adequate capacity transfer processes; and (iii) the TC is designed to transversally strengthen capacities for the implementation of positive projects in climate action, biodiversity and transparency, allowing to maintain support and strengthen capacities of the entity in its different mission areas. Additionally, the TC supports the achievement of results of the credit operation and will maintain constant coordination with the project team. Finally, the knowledge products developed through this TC will also help address the knowledge gaps of the IDB CLIMA Roadmap in a timely manner that contributes to the successful conclusion of the pilot project.

VII. Exceptions to Bank policy

- 7.1 This operation does not anticipate any exceptions to IDB policies.

VIII. Environmental and Social Aspects

- 8.1 This Technical Cooperation is intended to finance prefeasibility, or feasibility studies of specific investment projects and the environmental and social studies associated

with them; therefore, the terms of reference and products of this TC will be consistent with the applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).

Required Annexes

[Request from the Client_88273.pdf](#)

[Results Matrix_79475.pdf](#)

[Terms of Reference_46247.pdf](#)

[Procurement Plan_65262.pdf](#)