

# Needs-based Climate Finance Project



## Technical Assessment of Climate Finance in Honduras

Annex to the Climate Finance Access and Mobilization Strategy for Honduras



United Nations  
Climate Change

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## Abbreviations and acronyms

AF	Adaptation Fund
AHIBA	Honduran Association of Banking Institutions
ARIDEMA	Asociación Regional de Industriales de la Madera de Francisco Morazán
BANADESA	Bank of Agricultural Development
BANHPROVI	Honduran Bank for Production and Housing
BCH	Central Bank of Honduras
CABEI	Central American Bank for Economic Integration
CCENR	Non-Refundable External Cooperation Committee
CDM	clean development mechanism
CLACDS	Latin American Center for Competitiveness and Sustainable Development
CNBS	National Banking and Insurance Commission
CO <sub>2</sub>	carbon dioxide
CO <sub>2</sub> eq	carbon dioxide equivalent
COMSA	Marcala Organic Coffee Association
COPECO	Permanent Commission for Contingencies
COVID-19	coronavirus disease 2019
DGIP	General Public Investment Directorate
DPPEPIP	Presidential Directorate of Strategic Planning, Budget and Public Investment
EECOPALSA	Energía Ecológica de Palcasa S.A.
ENEE	National Electric Power Company
FDI	foreign direct investment
FEDECAMARA	Federation of Chambers of Commerce and Industry
GCF	Green Climate Fund
GDP	gross domestic product
GEF	Global Environment Facility
GHG	greenhouse gas
GRM	Green Retrofit Marketplace
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
INCAE	Central American Institute of Business Administration
INVEST-H	Honduras Strategic Investment
IUCN	International Union for Conservation of Nature
MECA	Best Central American Companies
MFI	microfinance institution
MRV	measurement, reporting and verification
MSME	micro, small and medium-sized enterprise
NA	not applicable
NAMA	nationally appropriate mitigation action
NDC	nationally determined contribution
OECD	Organisation for Economic Co-operation and Development
PDD	project design document
PIAH	indigenous and Afro-Honduran peoples
PCM	executive decree approved by the Council of Ministers of Honduras
PPA	power purchase agreement
PPF	project preparation facility
PPP	public–private partnership

REDD+	reducing emissions from deforestation; reducing emissions from forest degradation; conservation of forest carbon stocks; sustainable management of forests; and enhancement of forest carbon stocks (decision 1/CP.16, para. 70)
REDMICROH	Honduras Microfinance Network Association
SEDECOAS	Secretariat of Community Development, Water and Sanitation
SEFIN	Secretariat of Finance
SME	small and medium-sized enterprise
SnCF Global	Subnational Climate Fund Global
SNIPH	National Public Investment System
UNDP	United Nations Development Programme
WB	World Bank

## Executive summary

The main purpose of this report is to introduce the baseline scenario of the Honduran financial sector and its experience in accessing and mobilizing funds, and to offer recommendations for the construction of a climate finance strategy that complies with the objectives outlined in the country's NDC. The report includes inputs that are especially relevant to decision makers and process enablers in relation to Honduras' investment plan for compliance with its NDC commitments.

The intention is to bridge the gap between the ideal scenario required to comply with those commitments and the existing reality in relation to local and international players, and the country's situation in terms of climate change and social and economic context.

Publicly available information has been collected from the different players as well as opinions from the international organizations involved, aiming to establish where Honduras stands and the experience and expertise it has relevant to meeting its NDC commitments and the challenges ahead for their fulfilment.

Many projects posed to comply with the objectives and contributions committed under the NDC will focus on climate change adaptation and reducing the country's vulnerabilities. Therefore, such projects will demand public investment or alliances of public-private investment as well as mandatory components of fiscal sacrifice and a significant amount of public debt to meet such goals.

To ensure the required finance for the implementation of these projects, promoting synergies among existing structures and mechanisms is crucial and urgent. It is necessary to consolidate local teams assigned to formulate the projects for submission to financiers. In the case of public projects, it is advisable that the financing component and the financial model be steered jointly with the technical teams of the SEFIN and not just with a sectoral approach in mind.

As for multilateral public finance, bilateral cooperation and further accessible funds for project implementation, the public sector appears to be the main beneficiary of the share that IMF and multilateral banks such as IDB, CABI and WB extend to Honduras nationwide in the form of concessional, ordinary and non-refundable finance. The remaining small portion of available funds come from other bilateral cooperation funds, the AF and the GCF.

The actual share of the different sources in fund mobilization, and the comparative scarcity of funds available – due to the decreasing use of sources, namely capital markets, concessional financing, innovative sources of public finance and grants – evince the key role that multilateral banks and the IMF guidelines and finance extended will have in the definition of climate finance in Honduras.

The public and private financial sector of Honduras has a solid base of knowledge in mobilizing funds in different sectors. Therefore, it is highly recommended to consider such experience when implementing actions towards NDC compliance. Moreover, further alternatives for project finance may be explored, such as the carbon market, even though Article 6 of the Paris Agreement is still pending definition, as is the future implementation of such rules in Honduras. Comprehensive technical and commercial expertise in the carbon market will be key to striking a balance between the NDC mitigation contributions and the emission reductions that may eventually be traded internationally, and the capacity to establish long-term national strategies.

Honduras has climate change governance, public financial system governance, a robust public and private financial sector and solid experience in fund mobilization. However, it needs to shed light on its implementing entities. The energy sector, for instance, poses the major challenge in terms of the impact that the current financial situation of ENEE may have on access to new funds. Moreover, this situation will surely have implications for country risk perception; energy sector vulnerability to climate change; and eventually accomplishing

the NDC goals, with energy being one of the fundamental pillars of the country's NDC commitments.

In order to address the above-mentioned issues, it is very important to start opening up a dialogue within the public sector and then to expand it to include the private sector. Delayed action might endanger Honduras' position vis-à-vis the Paris Agreement and its capacity to access future climate finance – expected to be extended at differential rates – for both the public and the private sector. It is important to bear in mind that country risk also applies to climate finance; therefore this issue should be addressed within the SEFIN as early as possible.

In order to move towards a climate finance plan, the following steps may be taken:

- Select the applicable public and private projects to comply with NDC objectives and contributions;
- Establish a working team with solid experience in project structuring and management to interact with financing entities, identifying local capacities and complementing them with regional capacities;
- In the case of projects requiring public investment, define how projects will be categorized within the priority note and SEFIN investment cycle;
- Define the climate finance concept and the terms and conditions for that type of indebtedness. To that end, a dialogue to work on this issue must be promoted between the SEFIN, the NDC focal point, IMF and the multilateral banks;
- Open up a dialogue between the financial sector and the public and private banking sector to establish a climate and sustainable finance working group, for which it is advisable to build on the experience of other countries in the region. This table should facilitate moving towards coordinating a financing mix for NDC compliance;
- Decide upon the consideration of the carbon market as a financing mechanism for mitigation measures, namely the national position in relation to Article 6 of the Paris Agreement;
- Identify and define roles and duties of implementing entities in relation to project execution, compliance with financiers and provision of reliable information – to be included in UNFCCC reports – to the NDC focal point within the framework of the Paris Agreement commitments pledged by the country.

To conclude, as it is recommended that the Government of Honduras consider the creation of a sustainable finance table on the basis of the experience of other countries in the region, it is also recommended to evaluate the SEFIN joining the Coalition of Finance Ministers for Climate Action, which brings together countries endorsing the six Helsinki Principles promoting national climate action, especially by means of fiscal policy and use of public finance.



## I. Context of the nationally determined contribution of Honduras

1. According to the Germanwatch Global Climate Risk Index 2019,<sup>1</sup> Honduras ranks among the top three countries worldwide most affected by extreme climate events in the last two decades. Many hydrometeorological hazards have affected an already vulnerable biophysical and topographic environment, causing drought after prolonged periods without rain and floods after heavy rain in short periods of time.

2. While Honduras is severely affected by climate change, its contribution to the phenomenon accounts for lower GHG emission levels than the average for countries in Latin America and the Caribbean, and other low- and middle-income countries. According to figures reported in the country's updated NDC in May 2021, its contribution to global emissions in 2018 was less than 0.05%.

3. Moreover, the country faces great challenges in overcoming the high level of poverty of a significant segment of its population, as well as the need to improve human development and reduce socioeconomic vulnerabilities arising from the climate change phenomenon and further aggravated by the COVID-19 pandemic. Climate change is a threat to Honduras' general population and its means of production and life, such as housing, crops and infrastructure. Consequently, a severely damaged national economy has to cope with food insecurity, poverty and Honduran nationals migrating in search of security for their families.

4. Given the high vulnerability of the country and its people, Honduras emphasizes in its updated NDC the priority that should be assigned to adaptation, a climate-resilient economy, and sustainable and social development in the context of the Paris Agreement as fundamental pillars that complement the mitigation objectives contained therein. The NDC presents the general guidelines at a macro level. The NDC implementation plan – which will be integrated with a national climate finance strategy – will be defined in due course.

### A. Institutional framework

5. In May 2021, Honduras submitted the first update of its NDC to the UNFCCC secretariat. The objectives of the NDC provide the strategic guidelines for the adoption of measures oriented towards the development of policies and actions for the country's contribution to global climate action. Moreover, they set the groundwork for a long-term low-carbon development strategy and compliance with the 2030 Agenda for Sustainable Development. The objectives have been defined within the framework of the principles of common but differentiated responsibilities, citizen participation – with a focus on the engagement of youth, women and the most vulnerable groups – human rights, and innovation and technology transfer.

### B. Objectives

6. The 13 NDC objectives and their classifications are as follows:

- (a) REDD+ action (synergy between adaptation and mitigation);
- (b) Sustainable rural development (synergy between adaptation and mitigation);
- (c) Renewable energy (synergy between adaptation and mitigation);
- (d) Bioenergy (synergy between adaptation and mitigation);
- (e) Energy efficiency (mitigation);

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<sup>1</sup> See

[https://germanwatch.org/sites/germanwatch.org/files/Indice%20de%20Riesgo%20Climatico%20Global%202019%20-%20Resumen\\_0.pdf](https://germanwatch.org/sites/germanwatch.org/files/Indice%20de%20Riesgo%20Climatico%20Global%202019%20-%20Resumen_0.pdf) (in Spanish).

- (f) Electromobility (synergy between adaptation and mitigation);
- (g) Comprehensive waste management (mitigation);
- (h) Smart cities (adaptation);
- (i) Water security (adaptation);
- (j) Sustainable economy (synergy between adaptation and mitigation);
- (k) Social inclusion (synergy between adaptation and mitigation);
- (l) Knowledge management and applied research (synergy between adaptation and mitigation); and
- (m) Monitoring and evaluation (NDC transparency mechanism) (synergy between adaptation and mitigation).

### C. Components and contributions

7. The NDC comprises the following components and contributions.

#### 1. Social inclusion component

8. Honduras acknowledges the importance of integrating social components into the country’s mitigation and adaptation efforts. For that, it aims to achieve gender-, youth- and PIAH-responsive goals in its climate actions. Honduras has pledged the contributions presented in table 1 for 2030.

Table 1

#### Contributions related to gender, youth, and indigenous and Afro-Honduran peoples

<i>Contribution number</i>	<i>Action</i>
G1	Establish and put into effect a working group on gender, youth and PIAH as part of the Climate Change Inter-Institutional Technical Committee.
G2	Develop and implement a strategy for including social groups in NDC implementation that includes planning and execution of at least two forums to discuss and propose possible public policies, programmes and projects aligned with women’s, young people’s and PIAH’s needs and context.
G3	Develop and implement a protocol that considers investment, financial security and incentives for NDC climate action, aiming to promote active inclusion of women, PIAH and young people in climate mitigation and adaptation solutions.
G4	Identify and integrate into the enhanced transparency framework MRV structure gender indicators to enable the analysis of differentiated climate change impacts, vulnerabilities and differentiated contributions of women, PIAH and youth to emission reduction and increasing adaptation and climate resilience.
G5	Establish a climate information registry to collect and analyse gender-, youth- and PIAH-disaggregated data, as well as roles relevant to mitigation and adaptation actions.
G6	Develop and implement a gender and climate change strategy to ensure gender-responsive NDC implementation, including action lines promoting the access of women, PIAH and young people to new technologies, green jobs, and market and financial opportunities.

## 2. Mitigation component

9. The forest in Honduras accounts for approximately 56% of the national territory.<sup>2</sup> The country's contribution to global emissions in 2018 was less than 0.05%.<sup>3</sup> However, in 2018 the country's emissions were 2.34 t CO<sub>2</sub> eq/capita/year, much lower than the 6.26 t CO<sub>2</sub> eq/capita/year global average, and even lower than the average for Latin America and the Caribbean, which is 4.99 t CO<sub>2</sub> eq/capita/year.<sup>4</sup> Table 2 provides the country's mitigation component contributions.

Table 2

### Mitigation component contributions

<i>Contribution type</i>	<i>Deviation from 'business as usual' scenario</i>
Mitigation contribution M1: Deviation from 'business as usual' scenario	Honduras established a 16% emission reduction goal for 2030 relative to the 'business as usual' scenario for all sectors excluding land use, land-use change and forestry. Such an ambitious target results from the analysis of the effects of the main mitigation measures to be developed in order to meet this contribution target. The mitigation measures <sup>5</sup> are: <ul style="list-style-type: none"> <li>- Promoting renewable energies;</li> <li>- Enhancing energy efficiency;</li> <li>- Encouraging electromobility;</li> <li>- Strengthening bioenergy;</li> <li>- Reducing fluorinated gases;</li> <li>- Coffee NAMA;<sup>6</sup> and</li> <li>- Tegucigalpa landfill.</li> </ul>
Synergic contribution S1: Conservation and functional restoration of the rural landscape	Honduras is committed to promote the conservation and functional restoration of the rural landscape, reaching 1.3 million ha forest in the restoration process by 2030.
Synergic contribution S2: Reduction of firewood consumption	Honduras is committed to reduce firewood consumption by families by 39% by 2030, thus contributing to combating deforestation.

## 3. Adaptation component

10. Honduras will contribute to the global adaptation goal by targeting the sectors it considers to be in most urgent need of adaptation climate action, by strengthening resilience and enhancing capacity for management of water resources, biodiversity and ecosystem services, agrifood sovereignty, infrastructure development and management of disaster risk reduction with a gender-responsive approach, also including other sectors (energy security, health care, education, etc.). Honduras has prioritized the promotion of adaptation measures

<sup>2</sup> According to the coverage and land use forestry map issued by the Institute of Forest Preservation of Honduras in 2019.

<sup>3</sup> See [https://www.climatewatchdata.org/ghg-emissions?breakBy=regions-ABSOLUTE\\_VALUE&end\\_year=2018&regions=HND%2CWORLD&sectors=total-excluding-lucf&source=CAIT&start\\_year=1990](https://www.climatewatchdata.org/ghg-emissions?breakBy=regions-ABSOLUTE_VALUE&end_year=2018&regions=HND%2CWORLD&sectors=total-excluding-lucf&source=CAIT&start_year=1990).

<sup>4</sup> See [https://www.climatewatchdata.org/ghg-emissions?breakBy=regions&calculation=PER\\_CAPITA&end\\_year=2018&regions=LAC&ors=total-excluding-lucf&start\\_year=1990](https://www.climatewatchdata.org/ghg-emissions?breakBy=regions&calculation=PER_CAPITA&end_year=2018&regions=LAC&ors=total-excluding-lucf&start_year=1990).

<sup>5</sup> Honduras reserves the right to review the mitigation measures in preparing its first biennial transparency report, to be submitted to the UNFCCC in 2024.

<sup>6</sup> Apart from its activities funded from national resources, the Coffee NAMA is expected to be supported in the short term by means of two projects: "Sustainable Coffee NAMA" and "Promoting Resilient, Inclusive and Low-Emission Coffee Growing", led by CABEL and IDB, respectively.

and actions based on the ecosystem and community approach, focusing on the promotion of nature-based solutions to cope with climate change challenges. Table 3 provides the adaptation component contributions.

Table 3  
Adaptation component contributions

<i>Contribution number</i>	<i>Actions committed</i>
A1	In 2021, Honduras submitted its first adaptation communication, which was prepared within the framework of the update of the NDC.  The governing document for adaptation in Honduras is the national adaptation plan, approved in 2018, which sets the strategic guidelines and pillars for its implementation at the national level. The document falls within the national planning in line with the Country Vision and a Nation Plan, which sets out the long-term planning vision of the country.  The national adaptation plan establishes five priority sectors for adaptation in the country: agrifood and food sovereignty; human health; infrastructure and social and economic development; biodiversity and ecosystem services; and water resources.
A2	By 2022, Honduras will have completed the elaboration of the national adaptation programme in order to make the national adaptation plan operational in line with the measures identified in the NDC.
A3	By 2023, the National Water Policy will be completed and the Water Authority created, and the National Meteorological Network established among all the institutions generating hydroclimatic data will be strengthened.
A4	By 2030, the protected area management plans will be updated in line with the adaptation component.
A5	By 2025, the country's participatory agrifood tables, in terms of adaptation measures, will be created and strengthened, and early warning systems will be working.
A6	By 2023, the Infrastructure Sector Adaptation Strategy will be prepared and the adaptation component will be included in the design of new road structures.
A7	By 2025, the Territorial Planning Municipal Plans and/or Municipal Development Plans with adaptation and gender perspective will be updated.
A8	By 2023, an adaptation strategy for the electricity transmission and distribution system will be implemented, and an MRV system for the country's adaptation will be established.
A9	By 2025, financing mechanisms for adaptation actions of vulnerable groups (women, youth and PIAH) will be available.

#### 4. Financing component

11. Access to climate finance represents a challenge for the country. Yet, the achievement of the NDC objectives depends on policies enabling financial mechanism resources to flow at a faster pace. That being said, the country has been managing resources that have materialized into significant results, such as the fact that, since the initial NDC, the electricity matrix has been changed.

12. It is important to point out that a first operation has been successfully completed with the GCF under very favourable financial conditions – that is on a long-term and low interest rate basis – which was directly related to the commitment to the restoration of one million ha forest. Also, negotiations are under way to get resources for the launch of key sustainable NAMAs that have been mentioned, such as those related to coffee and cattle-breeding.

13. Honduras is committed to the mobilization of the necessary national and international financial resources, with the support of the institutional arrangements designed for the management of climate finance, to comply with the climate change mitigation and adaptation

contribution goals for 2030 indicated in the NDC. Table 4 provides the financing component contributions.

Table 4  
Financing component contributions

<i>Contribution number</i>	<i>Actions committed</i>
F1	Adopt an investment plan with a climate change financing strategy and a carbon market architecture.
F2	Improve climate change financial management governance, by using the investment plan and financing strategy, as a unifying instrument in decision-making processes.
F3	Keep identifying and reporting in annual budgets the investment and expenditure related to climate change mitigation and adaptation, and to natural disaster risk reduction.
F4	Develop a system for following up on support received pursuant to the modalities, procedures and guidelines for the enhanced transparency framework.

## D. Climate finance governance

14. Honduras has adopted institutional arrangements to mobilize and follow up on climate financing as detailed below. Such arrangements determine the hierarchy and coordination relations among the different national and subnational governmental agencies, and assign specific functions and duties for the implementation of climate change policy.

### 1. Decision-making bodies created under the Climate Change Law

#### (a) Climate Change Inter-Institutional Committee

15. The Committee defines and promotes the climate change national policy framework and ensures that public policies include the relevant considerations. It operates the mechanism to identify and approve initiatives, investments and research activities. Moreover, it prioritizes the execution of projects and programmes contributing to addressing climate change. Its functions are defined by Climate Change Law, executive decree 297/2013 and executive agreement 1203/2013.

#### (b) Climate Change Inter-Institutional Technical Committee

16. The Committee promotes and coordinates actions related to climate change research, strategies, programmes and initiatives. It manages resources for the implementation of policies, and prepares and promotes regional programmes. Decree PCM 022/2010 and executive agreement 1203/2013 define its functions. The Committee is entitled to create subcommittees to deal with specific issues, such as the air quality subcommittee, the water resources subcommittee, the REDD+ subcommittee, the agriculture and food security subcommittee, and the intersectoral technical subcommittee for the NDC. The latter provides the context for technical discussions regarding NDC updates or changes, as well as analysis and alternatives for implementation.

#### (c) National Directorate of Climate Change

17. The Directorate is an office of the Secretariat of Natural Resources and Environment and is the technical body supporting the above-mentioned committees. It is in charge of identifying climate change adaptation and mitigation measures, and of supporting resource management for their implementation. In this function, the Directorate collaborates with the different sectors to identify and manage international technical cooperation resources with international climate financing sources. The functions of the Directorate are set out in decree PCM 022/2019 and elaborated in its internal rules and regulations.

**2. Additional entities established by the Presidency of Honduras**

**(a) Climate Change Presidential Board**

18. The Board is in charge of leading, coordinating and approving the necessary public strategies and policies to prevent and respond to climate change impacts, as well as to enforce the appropriate legal and institutional framework. The national climate change strategy establishes supplementary policies that are required to achieve NDC goals. The strategy orders the management and alignment of resources for the financing of climate actions pursuant to dispositions issued by the SEFIN. The functions of the Clima+ Board of Directors are set out in decree PCM 035/2017 and for their execution the Board relies on Clima+.

**(b) Presidential Office for Climate Change**

19. The technical functions of Clima+ are related to monitoring climate change actions. The Office facilitates inter-institutional coordination and counsels the different public administration agencies in their management of climate change. It leads the allocation of international technical cooperation resources to ensure their compatibility with objectives and priorities of the climate change policy of Honduras.

**(c) Presidential Office of Green Economy**

20. The Office was created to formulate and implement green growth policy. Such policy ordered, regulated and fostered protection and restoration of ecosystems and the development of a low-carbon economy by means of the Recovery of Degraded Ecosystem Goods and Services National Program; the Conservation of Terrestrial Ecosystems National Program; the Sustainable Consumption and Production National Program; and the Blue Economy National Program. The Office leads the use of international technical cooperation and financial resources to ensure the green economy policy for all sectors that are relevant to society for a low-emission economy and a less vulnerable one to climate change in Honduras. The functions of the Office are set out in decree PCM 126/2020.

**3. Other related self-regulated bodies**

**(a) Secretariat of Finance of Honduras**

21. The SEFIN is the body in charge of the Public Sector Financial Administration System and of ensuring financial management information transparency and establishing rules and guidelines for the formulation of public investment programmes and projects. It is responsible for managing internal and external refundable resources, including the authorization of external credit and technical cooperation trades requiring resources for compensation.

22. The public budget general dispositions of Honduras require public institutions to identify and report investments and expenditures related to climate change mitigation and adaptation measures, and to the reduction of natural disaster risks. The SEFIN collects and reports relevant annual public investment data. The functions of the SEFIN are set out in Organic Budget Law PCM 048/2011.

**(b) Secretariat of Foreign Affairs and International Cooperation**

23. The secretariat is in charge of managing international cooperation resources. Its functions are set out in decree PCM 008/1997.

**(c) Secretariat of General Coordination of Government**

24. The SCGG assesses and approves projects, ensuring their alignment with the country's development priorities. Its functions are set out in decree PCM 009/2018.

25. The three above-mentioned Secretariats form the Non-Refundable External Cooperation Committee, which coordinates the management of international technical cooperation non-refundable resources and verifies the correct alignment of these resources

with national development priorities. The Committee authorizes the participation of governmental agencies in the management of non-refundable international technical cooperation and authorizes the payment of national compensation resources. Decree PCM 09/2018 established CCENR and sets out its functions.

26. As mentioned above, there is a considerable number of institutions related to the process of managing and approving climate financing. Therefore, it is proposed in the NDC to review the governance involving their participation and in turn to implement a mechanism to speed up decision-making processes, defining specific roles for each government agency.

**(d) National Electric Power Company**

27. ENEE is Honduras' government-owned and -operated electric power company, operating within the electricity sector. It was created on 20 February 1957 as an autonomous organization responsible for the production, transmission, distribution and commercialization of electrical energy in Honduras.

**(e) Honduras Strategic Investment**

28. INVEST-H has been established as a management unit for the planning, administration and implementation of strategic projects and programmes for the country's development. It is assigned to the SCGG. INVEST-H is in charge of managing effectively and transparently development projects and programmes in the whole national territory with national and international funds.

## **II. National Public Investment System**

29. A significant number of NDC-related projects in Honduras will be capital intensive as they will be focused on the development of infrastructure such as road, water and electricity transmission and distribution. Usually, these types of works require public investment or a PPP investment. In Honduras, public finance governance lies exclusively with the SEFIN; therefore, the SEFIN will play a leading role in defining the development of many of these projects.

30. A further relevant issue in the decision-making process for the NDC implementation plan will be the assessment of the fiscal sacrifice that the Government will have to make in order to encourage the fulfilment of some NDC objectives and contributions, for example in the area of electromobility. In this case, governance lies with the SEFIN and the SCGG.

31. Funds to be mobilized in Honduras for compliance with the NDC implementation plan may come from three sources: international cooperation, public investment and private investment. Some of the funds that Honduras may have access to for the NDC implementation plan will possibly come from international cooperation and will be non-refundable. However, the main finance source in the pursuit of NDC objectives and contributions will be public and private refundable funds.

32. Moreover, these capital-intensive NDC-related projects must comply with the public financing cycle regardless of the source of the funds required for their implementation. Therefore, in order to be able to move forward with climate fund mobilization to comply with NDC adaptation contributions in a coordinated manner, and considering the existing institutions and entities involved, it is highly important to understand the role of the SEFIN and the structure of the SNIPH.

### **A. Stakeholders**

33. Stakeholders within the public financial sector involved in the NDC implementation plan are detailed below.

**1. General Public Investment Directorate**

34. Pursuant to legal frameworks in force, the DGIP of the SEFIN is the statutory governing body of the SNIPH. As the steering entity, the DGIP is responsible for the preparation of the regulations and methodologies that rule the SNIPH, the prioritization of project viability (the DGIP issues the priority note that all projects need in order to enter the public investment cycle), investments' physical and financial planning, monitoring and project closure.

**2. Presidential Directorate of Strategic Planning, Budget and Public Investment**

35. The SCGG, through the DPPEPIP, determines the alignment of projects with current national strategies.

**3. External Credit Committee**

36. The External Credit Committee (formed by the General Budget Directorate, the General Directorate for Public Credit and Public Investment, and the Directorate for Macro Tax Policy) determines the availability of tax space.

**B. Priority note**

37. In order to comply with NDC commitments, it is of vital importance to understand the steps required to establish the priority status of new public investment projects, which are summarized below.

**1. Strategic alignment application**

38. All programme or project initiatives to be funded by national refundable and non-refundable resources as well as any other source must have a strategic alignment analysis. The opinion certifying the project's alignment with the government priorities is issued by the DPPEPIP of the SCGG.

**2. Fiscal availability application**

39. In order to establish the fiscal availability<sup>7</sup> to finance a new project with external credit and donation funds, a technical note must be issued jointly by the State Secretariat at the Finance Office, through the Budgetary Additions Committee, which is made up of the Public Investment Directorate, the Macro-Fiscal Policy Directorate, the Budgetary Directorate and the Public Credit Directorate.

**3. Project document formulation and filing**

40. The project document must be prepared on the basis of the methodological guidelines for formulation and approved evaluation, and defined formats. The document must be filed accompanied by updated studies and designs taking into account the following specifically oriented programme variables: risk management, climate change, gender equality, women and human rights. The document must also be prepared according to the priorities set out in the regional development plan. The document must be filed with the SNIPH.

41. The investment projects filed with the SNIPH are formulated, assessed, selected, executed and operated by the different entities of the National Public Administration and municipalities.

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<sup>7</sup> Fiscal evasion in Honduras is a major concern, as well as defaulted payments associated with utility services. This is why the country's debt repayment to financing entities is expected to be difficult. Healthy fiscal accounts contribute to a better country credit risk and allow for better financing conditions for public investment. Again, the fact that the bulk of measures proposed within the framework of the NDC are public sector capital intensive will bring about a sovereign debt increase for Honduras.



### C. Legal framework

42. The SNIPH is ruled by the Public Administration Law, according to which SEFIN is responsible for programming public investment.

43. The Organic Budget Law outlines the structure of SNIPH, determines the characteristics of the Pluriannual Investment Program and the Annual Public Investment Program, and mandates the processes to be fulfilled by the institutions that submit investment projects.

44. These laws are supported by the Technical Public Investment Regulations and the Budget Execution Regulations in force.

45. Other relevant laws for fund movement are the Special Law for the Simplification of Public Infrastructure Investment Procedures, the Law of the Financial System, the Monetary Law, the Anti-Money Laundering Law, the Law of Deposit Insurance, and the Law for the Promotion of Public–Private Partnerships.

46. According to the Planning Evaluation and Management Unit of the SEFIN, five laws were approved between 2010 and 2013 in addition to a series of amendments to fight tax evasion and certain modifications to tax rules. It is worth emphasizing the approval and entry into force of the Law to Strengthen Income, Social Equality and Public Expense Rationalization (decree 17/2010) and the Law for Public Finance Structuring, Control of Exemptions and Anti-Evasion Measures (decree 278/2013), which were decisive to direct the gradual adjustment of tax figures.

47. In order to be able to mobilize large-scale funds for NDC-related public investment, Honduras must definitely guarantee the repayment of future loans with lenders. Therefore, the Government must ensure the existence of sufficient public reserves to honour its obligation of repaying funds to financing entities.

### D. Methodologies

48. In order to standardize the formulation and assessment of investment projects, the DGIP has developed the “General Methodological Guide for the Formulation and Assessment of Public Investment Programs and Projects”. This methodology enables the formulation and assessment of investment projects based on the cost-efficiency and cost–benefit analysis of the alternatives for solutions to the problem to be addressed. Currently, the general methodology is being updated. As a result of this updating process, social prices are included, such as the social discount rate, the price of labour and currencies. The Guide must be considered for all NDC-related projects relying on public investment for implementation.

49. Two sectoral methodologies have been developed. One is the “Sectoral Methodological Guide for Formulation and Assessment for Farming Programs and Projects for Irrigation Systems”. All projects related to the measure of strengthening irrigation systems included in the NDC under objective 2, sustainable rural development, and that depend on public investment must comply with the guidelines. The second sectoral methodology is the “Sectoral Methodological Guide for Formulation and Assessment for Programs and Projects on Drinking Water and Sanitization”, which aligns all NDC-related projects involving public investment in the drinking water and sanitization sector. The Guide is related to objective 8 of smart cities.

50. The “Method for Protection of Infrastructure Projects” has been developed and considers the identification of disaster risks of investment projects and the preparation of an action plan to mitigate these risks, as well as the cost–benefit calculation of the mitigation measures.

51. The document issued by SEFIN on the “Method to Reduce Vulnerability in Infrastructure Projects” should also be highlighted. This protection for projects has been developed to improve the planning process, including vulnerability and risk assessment

methods, so that, instead of coping with the consequences of natural disasters, governments may reduce their causes and mitigate their effects. Currently, the lack of methods and data limits relevant decision-making. The aim of the Method is to improve the formulation of local projects for infrastructure investment by contributing to reducing vulnerability to different natural, socio-environmental and socioeconomic threats. It is oriented to facilitators in the public sector at the local level, as well as to different professionals, so that they can review the content of the proposals for new projects or of projects in operation for disaster risk reduction, and help institutions to detect the main risks, define actions to mitigate them, analyse implementation costs of those actions, and determine their incorporation into the proposals.

## **E. Public investment programmes**

52. The SNIPH prepares a four-year horizon Pluriannual Investment Program (including detailed annual finance amounts for each particular project) as well as the Annual Investment Program.<sup>8</sup>

53. The Public Investment Program is formed by sectoral and inter-institutional projects. These are proposed by public sector institutions after their technical, environmental, legal, economic and social viability has been analysed and assessed, and the resource allocation has been determined as per the budget limits of the execution term.

54. Again, it is important to bear in mind that the NDC-related projects requiring public investment and fiscal sacrifice for their implementation must be included and approved under the above-mentioned Public Investment Program.

## **F. Investment project bank**

55. According to regulation in force in Honduras, all investment projects must be registered in the investment project bank, the SNIPH project management tool.

56. Access to the bank is restricted to the public officers appointed by each project's implementing institution, who can monitor the different phases of the project life cycle, updated according to progress. The bank shares information with the financial administration system of the SEFIN. On the basis of the information uploaded by the project implementing units, the DGIP prepares publicly accessible monthly, quarterly and annual progress reports.

57. All NDC-related projects requiring public investment will be included in the investment project bank. Therefore, this project management tool is recommended to be considered in the design of the future NDC MRV system.

## **G. Training**

58. The DGIP prepares a training programme every six months for the public sector agencies in charge of preparing the priority note required by the SEFIN for all NDC-related projects. The training plans can be checked on the SNIPH website. The calendar for the workshops and technical assistance shows the dates assigned to each agency.

## **H. Public investment cycle**

59. The public investment cycle involves the following stages.

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<sup>8</sup> See <https://www.sefin.gob.hn/ciclo-de-inversion-publica/>.

**1. Legal framework**

60. Pursuant to the Organic Budget Law, the SEFIN – through the DGIP – is responsible for issuing public investment regulations and guidelines.

**2. Public investment framework**

61. Accordingly, the DGIP prepares the Pluriannual Public Investment Program and the Annual Public Investment Program.

**3. Alignment with government priorities**

62. For investment projects to be included in the above-mentioned investment programmes, regardless of their funding source – own resources, external finance or PPP – they need to get SCGG endorsement. Therefore, once an investment project is structured according to the methodologies and regulations in force, it is submitted to the DPPEPIP of the SCGG, which will issue an opinion certifying that the project is aligned with the government priorities in accordance with the programmes in force.

**4. Budget availability**

63. The project is submitted for analysis to the Budgetary Additions Committee (formed by the DGIP, the General Budget Directorate, the Directorate for Macro Tax Policy and the General Public Credit Directorate). The Budgetary Additions Committee will issue a technical note to determine whether the budget limit for the institution is sufficient to complete the project or not.

**5. Priority note**

64. The projects that have these two previous opinions can be registered in the investment project bank of the DGIP for technical analysis to verify that the assessments made comply with the relevant methodologies. If they do, the DGIP issues the priority note.

**6. Inclusion in the annual budget**

65. Once the project has the priority note, it can be included in the annual budget and receive financing for its execution. The inclusion in the annual budget will be in line with the projections made by the public institutions in charge of formulating and assessing the investment projects, pursuant to the regulations and methodologies in force.

**7. Reporting on execution**

66. During the execution phase, the implementing institutions report on the physical and financial progress of the projects in the Financial Administration System and the SNIPH system and, based on that information, the DGIP prepares the Investment Program monthly and quarterly progress reports. Additionally, SNIPH personnel visit the sites to verify the physical progress of the most relevant projects. Any delay must be reported at the working meetings held between the SNIPH, the steering entity and the project implementing institution to analyse causes and find solutions.

**8. Reporting on project completion**

67. When the project is completed, the implementing institution must report the completion of the established targets and the physical-financial closure of the project in the investment project bank's closure module.

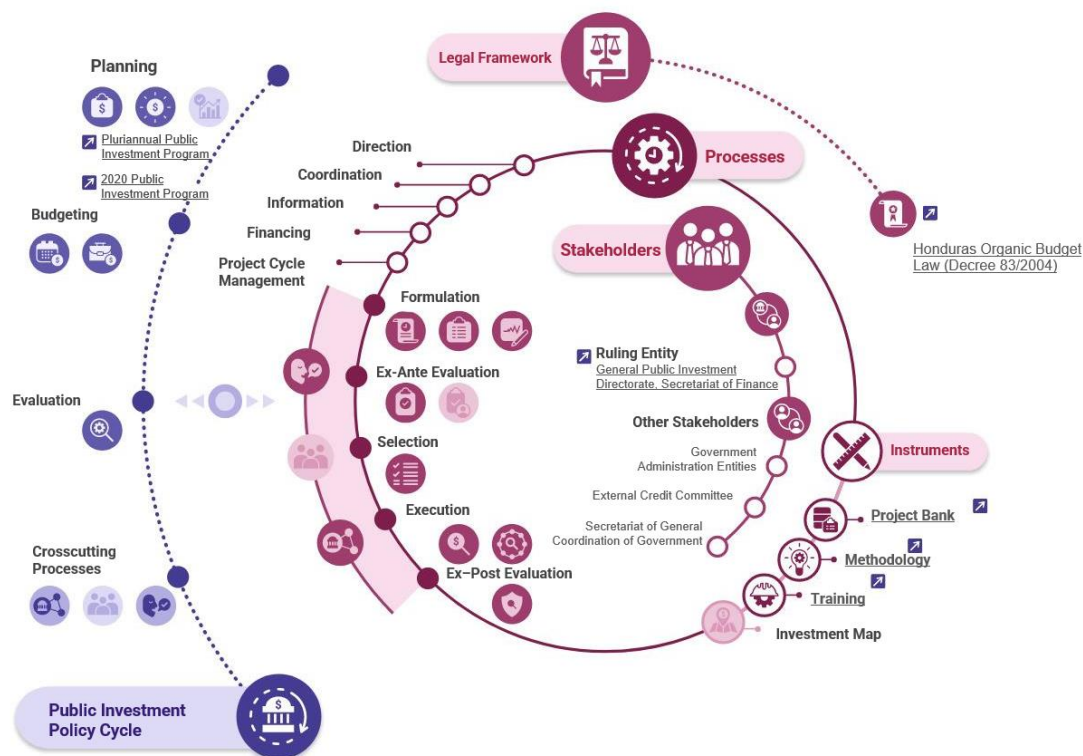
**9. Public investment follow-up**

68. The priority notes issued annually can be publicly consulted on the SNIPH website, as well as the Investment Program Financial Execution Matrix. The new Public Investment Program shows the balance from the previous fiscal year and highlights the main results

achieved as well as the areas that need to be improved that were identified during the previous cycle.

69. Figure 1 shows the public investment system cycle.

Figure 1  
Public investment system cycle



Source: See <https://observatorioplanificacion.cepal.org/en/planning-systems/national-public-investment-system-honduras>.

### Conclusions

70. Owing to the capital-intensive nature of the future investments in NDC-related projects, many of them will be financed with public investment funds. Therefore, all NDC-related projects will have to comply with the requirements set by the SNIPH cycle.

71. Given that public investment system governance lies with the SEFIN, all fund mobilization involving public financing to accomplish NDC-related projects will have to comply with the public investment cycle.

72. Any fiscal sacrifice or change made to the fiscal policy that might be associated with the implementation of NDC-related projects will be subject to the approval of the SEFIN and the SCGC through the DPPEPIP.

73. When planning the design of the NDC MRV systems, it would be advisable to consider project management tools currently available within the SNIPH cycle.

74. The main challenge that Honduras will face in the implementation of NDC-related projects that require public investment will be obtaining long-term strategic financing from entities that have a long-term collaboration record with the country.

75. Such strategic financing should consider Honduras' vulnerability variables to climate change.

### III. Experience and expertise of Honduras' financial sector

76. The NDC, updated in May 2021, states that Honduras will begin a process to determine the specific projects that will be implemented in order to meet NDC-stated objectives and contributions.

77. Once a specific project is defined, the following step will be to establish the participating stakeholders, the associated investment amount involved, the implementation schedule and the financing strategy. The public and private financial sectors will be key actors in defining the project's financing strategies.

78. Therefore, within the framework of NDC-related future fund mobilization it is important to be aware of public and private financial entities' local experience.

79. This section will be an input to be considered for the NDC financing contribution, as it provides information on the experience of some of the actors within the public and private financial sector.

#### A. National Banking and Insurance Commission – Women Financial Inclusion Plan

80. CNBS launched the Women Financial Inclusion Plan with the technical assistance of Toronto Centre. This plan is intended to enhance and strengthen CNBS' supervision and regulation capacities so as to effectively improve the financial inclusion of Honduran women.<sup>9</sup>

81. The Women Financial Inclusion Plan has three stages: (i) gathering and reporting high-value and quality information; (ii) information analysis; and (iii) use of the information to design policy interventions.

82. One of the objectives of the Women Financial Inclusion Plan is the articulation of financial services with the Business Development Services CDE-MSMEs for the specialized attention of women with an emphasis on rural areas. Bearing in mind that women's participation and rural development are mentioned in several sections of the NDC, it is advisable to explore possible synergies between the Women Financial Inclusion Plan and NDC objectives and contributions.

#### B. Central Bank of Honduras – Financial Innovation Desk of the Central Bank

83. The BCH has developed the Financial Innovation Desk.<sup>10</sup> It is a public-private collaboration environment, propelled and managed by the BCH and the CNBS, which furthers innovation and healthy competition in the provision of financial products and services by using technology and digitalization. The Desk aims to assist in the financial inclusion process by adopting and using financial technology. Within the Desk's project framework, activity on promoting entrepreneurial women's access to the financial system in Honduras stands out.<sup>11</sup>

84. Bearing in mind that women's participation is mentioned in several sections of the NDC, it is advisable to explore possible synergies between the Financial Innovation Desk and NDC objectives and contributions.

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<sup>9</sup> See <https://www.cnbs.gob.hn/inclusion-financiera-mujeres/#:~:text=La%20CNBS%20comenz%C3%B3%20a%20ejecutar,Financiera%20de%20la%20Mujer%20Hondure%C3%B1a.>

<sup>10</sup> <https://www.bch.hn/acerca-del-bch/mesa-de-innovacion-financiera.>

<sup>11</sup> See <https://storagemediaincae.blob.core.windows.net/documentos/CLACDS/Estudio%20Acceso%20de%20la%20Mujer%20al%20Sistema%20Financiero%20en%20Honduras-Final.pdf>.

## C. Central Bank of Honduras and Honduran Bank for Production and Housing – Trusts

85. Honduras has broad experience in both public and private trust structuring. Trusts allow diverse financing sources to be channelled into a single instrument, and also allow for the financing of a variety of beneficiaries and activities, which can be done through the securitization of the assets in the trust. The available resources then finance different types of activities involving public and private beneficiaries, large or small, and can even finance unbanked beneficiaries who lack access to other financing sources.

86. New and existing trusts could be considered for an NDC financing contribution, channelling funds, guarantees and other tools – such as the development of microfinance and interest rate subsidies or coverage of financial costs – for producers, MSMEs or even vulnerable beneficiaries that may not be able to access formal credit mechanisms.

87. In addition, through the securitization of contracts with future fund flows, trusts may be structured to finance energy projects, energy infrastructure and resilient infrastructure.

88. With respect to small-scale producers, energy efficiency, sustainable housing, agriculture, coffee production, forest management or livestock raising, trusts may be structured to support the financing of sustainable resource management activities through a combination of debt instruments with funds to strengthen technical capacities and even capital investment in productive innovation projects.

89. In this sense, the BCH and BANHPROVI play a leading role in structuring trusts at the national level. It is relevant to include the experience of both of these institutions in building the NDC financing contribution, especially considering the financial role of BANHPROVI in Honduras, which includes the following areas:

- (a) First tier banking: microcredit, SMEs, food and agriculture sector;
- (b) Second tier banking with local banks and financial entities: banks, cooperatives, financial institutions, MFIs, private organizations for financial development, rural banks and trading companies; and
- (c) Guarantee fund for the reactivation of MSMEs.

90. The experience of the above-mentioned institutions should be considered when designing payment guarantees, for example, for products designed to finance energy efficiency, agricultural development and food security. Alternatively, an assessment could be made of the role that they might play in evaluating the creation of a payment trust for environmental services.

91. Three trusts are mentioned below as an example of arrangements in which the BCH would act as trustor and beneficiary, and BANHPROVI as trustee.

### 1. BCH–BANHPROVI Trust

92. The BCH–BANHPROVI Trust is intended to provide financial support to the following economic sectors:

- (a) Housing sector, especially for low-income people;
- (b) Rehabilitation and debt restructuring of production units that have been affected by climate phenomena and the international economic and financial crisis, as well as microcredit and other productive sectors; and
- (c) Education and professional training programmes through “Educrédito”.

93. Additionally, the Trust’s financial funds may serve to establish guarantee funds. For example, in 2020 the BCH Trust Commission approved the creation of a guarantee fund for the financing of rediscounted loans with BCH–BANHPROVI Trust funds allocated to priority sectors in employment and/or currency generation for the country. The objectives of the guarantee fund include supporting the food and agriculture sector by issuing guarantees to back up up to 90% of the loans rediscounted with BCH–BANHPROVI Trust funds,

starting with a financial product to grant transformation credits of the food and agriculture sector of Honduras.

**2. Central Bank of Honduras Guarantee Fund Micro, Small and Medium-Sized Enterprises Trust**

94. The purpose of the Central Bank of Honduras Guarantee Fund Micro, Small and Medium-sized Enterprises Trust is the issuance of credit guarantees as a mechanism to incentivize access to credit in order to reactivate the economic life of MSMEs. MSMEs were severely affected by the decrease in cash flows caused by the restrictive measures adopted by the Government of the Republic to prevent the spread of COVID-19.

**3. Central Bank of Honduras Guarantee Fund Large Enterprises Trust**

95. The purpose of the Central Bank of Honduras Guarantee Fund Large Enterprises Trust is the issuance of credit guarantees as a mechanism to encourage access to credit to reactivate the economic activities of large enterprises affected by the decrease in cash flows caused by the restrictive measures adopted by the Government of the Republic to prevent the spread of COVID-19.

96. It is advisable to evaluate in what way these three trusts might contribute to financing future NDC actions, such as assessing the feasibility of coordinating efforts in the energy sector and agricultural development of post-pandemic economic recovery with actions that may also contribute to NDC compliance.

**D. Sustainable rural development**

97. Honduras' agriculture sector plays a significant role in the country's economy. According to a 2019 agricultural policy analysis published by the IDB, the sector represents 12.4% of GDP and 35.6% of the total value of national exports, and employs 35% of the economically active population. It also plays an essential role in the reduction of food and nutritional insecurity. This is why the Government of Honduras has emphasized the relevance of this sector by establishing NDC objective 2: sustainable rural development.

98. The role of state-owned banks BANHPROVI and BANADESA stands out in the country's sustainable rural development. The scope of BANHPROVI financial services is outlined in section III.C above. As for BANADESA, its main objective is to channel financial resources towards developing production and productivity in the following sectors: agriculture, cattle-breeding, fishing, poultry farming, apiculture, silviculture, as well as other activities related to the primary processing and commercialization of such production.

99. Some examples are the Agri-Food Sector Reactivation Investment Trust; the Cocoa National Program; and the recently implemented Agrocredit 8.7, a Government programme aimed at supporting the food and agriculture sector by providing financing to producers in different areas at a 5% preferential rate.

100. In this sense, these two banks will play a leading role in future fund mobilization for projects related to NDC objective 2. These two banks' expertise and knowledge may be used as the foundation on which to build the NDC financing contribution.

**E. Honduran Coffee Institute and National Coffee Commission – Coffee Trust**

101. Honduras has a country brand and is the region's leading trader in coffee exports. Honduras is the leading coffee producer and coffee-exporting country in Central America and the fifth largest coffee-exporting country globally. Its main market is Europe, which imports 65% of the country's coffee. Coffee represents 30% of agricultural GDP and 5% of national GDP.

102. Given the economic importance of coffee, actions related to this product will be considered for NDC objective 2: sustainable rural development. This is why the Coffee Trust features in this paper.

103. Under the Law on the Financial Reactivation of the Coffee Production Sector, the Honduran Coffee Institute was authorized to create, and act as trustor for, a trust with several financial institutions of the national banking system named the Coffee Production Sector Financial Reactivation Trust (Decree 152/2003). Since the Trust's establishment, its objectives have gradually changed over time. Currently, they are as follows:

- (a) Renewal and maintenance of coffee plantations;
- (b) Diversification of crops in plantations, such as: timber trees, livestock farming, pig farming, poultry farming, fish farming, beekeeping, non-traditional agricultural producers, and other strategic productive activities that increase national wealth;
- (c) Processing and industrialization of coffee;
- (d) The Rural Housing Program;
- (e) The Education, Family Strengthening and Health Programs; and
- (f) A programme of productivity and incorporation of the microproducer into the marketing chain. This programme will be financed with funds from the issuance of bonds. These funds will be kept in the National Financial System to grant loans, at rates and terms according to each one of the financed activities, to coffee producers who take advantage of this Decree's benefits.

104. In the context of the NDC financing contribution, it is important to consider the expertise and knowledge acquired in the implementation of this Trust and evaluate its potential role, as well as the role of other financing lines, in future NDC-related actions within the coffee sector, as well as other measures to comply with NDC objective 2.

## **F. Honduran private banking institutions**

### **1. Honduran Association of Banking Institutions**

#### **(a) Sustainable Banking Desk**

105. Honduras initiated in 2017 the works connected with the concept of sustainable banking. This initiative started with AHIBA, financed by the IFC and FMO, a Dutch entrepreneurial development bank. AHIBA is a member of the Sustainable Banking Network, a knowledge-sharing platform supported by IFC which promotes the construction of sustainable banking capacities for banking regulators and associations. This initiative led to the creation within AHIBA of a Sustainable Banking Committee involving all 15 AHIBA member institutions.

106. The Committee's initial objective was collaboration between banks, allowing the experience gained by those advanced in environmental and social risk management to be shared with all members. Among the initiatives in the banking system was the publication on 4 August 2020 of CNBS Circular Letter No. 028/2020 on environmental and social risk management for financial system institutions. In 2019, IDB Invest financed a climate impact and financial risk study for Honduras' private financial sector, the results of which are confidential.

107. The establishment of a so-called Sustainable Banking Desk could be the starting point for opening a dialogue to identify possible synergies within the private financial sector under the framework of the NDC financing contribution. A first step should include introducing NDC objectives and contributions to AHIBA Sustainable Banking Desk members. Also, it was recommended that AHIBA participate in the Climate and Sustainable Finance Dialogue dialogue, organized by the Energy Secretariat in August 2021 as part of the 'Energy Compacts and Sustainable Development Goal 7' event.



**(b) Eco-banking project**

108. UNDP is in a position to contribute to the implementation of the Sustainable Development Goals. In this context, UNDP in Honduras supported the GRM platform, developed by the CLACDS of INCAE Business School, within the framework of its eco-banking project.<sup>12</sup>

109. GRM is a website that promotes access to more efficient and eco-friendly technology by disclosing the technology and green financing options available in the country and providing a platform for interaction between end users, efficient equipment suppliers (e.g. of lightbulbs, air conditioning or water heaters) and banking institutions offering green financing products.

110. It is oriented to facilitate the implementation of residential and commercial low-carbon technology replacement projects, providing potential users with relevant information regarding cost and emission reductions to facilitate decision-making. GRM calculates automatically the annual economic savings that would be generated from replacing obsolete equipment, simultaneously supporting 6 of the 17 Sustainable Development Goals (see figure 2).

Figure 2

**Sustainable Development Goals 7 to 16**



111. UNDP contributed to broadening the GRM userbase in Honduras by strengthening its content, improving access and promoting its use among a wider sector of the population. The calculation for quantity of GHG emissions prevented annually upon replacing equipment with more efficient options was included on the website. Effective graphics were designed to attract more visitors to the website. Additionally, more members were gained thanks to the incorporation of products by Solaris, a supplier of a range of efficient equipment, and two credit products by the Banco Promerica bank: one for individuals and another for SMEs. The Banco del País bank also joined the GRM platform.

**(c) Banking institutions**

112. Table 5 below includes a detail of the 15 AHIBA financial member institutions and their financial products available, which should be taken into account in future dialogues regarding the NDC financing contribution.

Table 5

**Honduran Association of Banking Institutions financial member institutions and their financial products available, in relation to their potential commercial relationship with Honduras' nationally determined contribution finance objectives**

<i>Financial entity</i>	<i>Products</i>
Banco Atlántida S.A. Bank	Financing for renewable energies, the agriculture and farming sector (including Agrocredit 8.7), industry and infrastructure. Has experience in financial leasing and syndicated loans and offers regional Ecocredit products. <sup>a</sup>
Banco de América Central de Honduras S.A.	A regional green SMEs programme for energy efficiency and renewable energy. <sup>b</sup>

<sup>12</sup> See <http://marketplace.ecobankingproject.net/login.aspx>.

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<i>Financial entity</i>	<i>Products</i>
Banco Davivienda Honduras S.A.	<p>Regional green financing products,<sup>c</sup> among which the following stand out:</p> <p>Environmental protection and preservation;</p> <p>Credit for corporate banking: cleaner production, energy efficiency, renewable energy and sustainable infrastructure;</p> <p>Credit for construction banking: credit for construction projects with recognized sustainable construction certification;</p> <p>Green bond issuance: The Green Bond was issued by Davivienda Honduras in 2017 with a 10-year term and fully paid by the IFC. The Green Bond is intended to finance sustainable construction, renewable energies, energy and water efficiency and sustainable transportation projects.</p> <p>Green credit for personal banking: green mortgage products, green loans for housing and eco-vehicles to finance hybrid and electric vehicles.</p>
Banco Financiera Centroamericana S.A.	No data available on specific green products at the time of writing, but further research is advised, as the bank recently expanded its lines of credit through a loan granted by the CABEL. <sup>d</sup>
Banco Financiera Comercial Hondureña S.A.	Previously received IDB financing to develop a portfolio of green and sustainable loans targeting SMEs and medium-sized borrowing companies to cover a range of eligible sectors. In June 2020, the CABEL approved an increase of USD 30 million in the Global Line of Credit, bringing the total amount up to USD 130 million for the Banco Financiera Comercial Hondureña to finance projects within the framework of any of the CABEL's financial intermediation programmes with an emphasis on productive sectors, foreign trade and MSMEs. <sup>e</sup>
Banco Hondureño del Café S.A.	Microfinance specialist. Grants microfinance products to owners of small production units requesting the following guarantees: fiduciary, pledges, mortgages or mutual guarantee funds. <sup>f</sup>
Banco de Honduras S.A.	Began operating in 1889. The First National City Bank (now known as Citibank) arrived in Honduras in October 1965 and acquired the majority of the shares of Banco de Honduras S.A. It is important to highlight that Citigroup, of which Citibank is a division, has experience in family office and green bonds. <sup>g</sup>
Banco LAFISE Honduras S.A.	Provides credit for builders. Although there is currently no green infrastructure construction financing available, the topic could be broached with the bank, which has an interest in sustainability issues. Also provides Trust structuring services. <sup>h</sup>
Banco del País S.A.	Offers specialized efficient housing loans aimed at individuals or self-employed persons interested in reducing their utility bills by incorporating sustainability criteria into their homes or domiciles with energy-efficient and environmentally friendly equipment. <sup>i</sup> The bank joined the GRM platform with the objective of promoting investments in clean technologies and more sustainable and environmentally friendly uses of water and energy. <sup>h</sup>
Banco de Occidente S.A.	Provides traditional agriculture and housing loans. Its profile suggests that it might be interested in promoting a specific product with a sustainability and climate change vision within the NDC framework. <sup>j</sup>

<i>Financial entity</i>	<i>Products</i>
Banco Popular S.A.	No data available on specific green lines at the time of writing, but further research is advised. Offers traditional credit. <sup>k</sup>
Banco Promerica S.A.	Offers loans for a wide range of economic activities, of which the following stand out:  MECA: joint endeavour between Grupo Promerica , Deloitte and INCAE to produce the MECA programme for SMEs. Among its other services, the programme can provide a business diagnosis to compare the financial and management performance of a company with the average of the industry in which it operates. The programme may be an important tool in preparing companies to qualify for a green credit.  Green loans for MSME banking: financial mechanisms that facilitate environmentally friendly investments to contribute to sustainable development and reduce carbon footprints.  Loans with BANHPROVI MSMEs guarantee funds.  Joined the GRM platform with the objective of promoting investments in clean technologies and the use of water and energy in more sustainable and environmentally friendly ways. <sup>l</sup>  Experience in syndicated loans and bank guarantees.
Banco de Los Trabajadores	Offers loans for SMEs in the following sectors: commerce, transportation, industry, agriculture and livestock farming. Would be interesting to evaluate with the bank the possibility of creating a green line of loans for low-emission transportation. <sup>m</sup>
Banco Azteca Honduras	Has a Family Financial Education Guide, which is an important tool for families that could access microcredit for projects such as a stove replacement. <sup>n</sup>
Banco de Desarrollo Rural de Honduras S.A.	Provides trust structuring, syndicated loans, bank guarantees and lines of credit for agro-industry, industry, commerce, construction, tourism and hospitality and renewable energy sectors. <sup>p</sup>

Source: Author's elaboration based on data from each AHIBA member and public official information.

<sup>a</sup> See <https://www.bancoatlantida.com/sv/banca-de-empresas/creditos/eco-credito.php>.

<sup>b</sup> See <https://www2.baccredomatic.com/es-gt/pymes/financiamiento/capital-de-trabajo/green-pymes>.

<sup>c</sup> See <https://sostenibilidad.davienda.com/gestion-sostenible/>.

<sup>d</sup> See <https://www.CABEL.org/novedades/noticias/articulo/CABEL-habilita-linea-de-credito-de-us360-millones-a-banco-ficensa-para-apoyar-a-las-mipymes-hondurenas-frente-al-covid-19>.

<sup>e</sup> See [www.ficohsa.com/honduras](http://www.ficohsa.com/honduras).

<sup>f</sup> See [www.banhcafe.hn](http://www.banhcafe.hn).

<sup>g</sup> See [https://www.citigroup.com/citi/fixedincome/green\\_bonds.htm](https://www.citigroup.com/citi/fixedincome/green_bonds.htm).

<sup>h</sup> See [www.lafise.com/blh](http://www.lafise.com/blh).

<sup>i</sup> See <https://banpais.hn>.

<sup>j</sup> See <https://ecobankingproject.org/>.

<sup>k</sup> See <https://bancooccidente.hn>.

<sup>l</sup> See <https://bancopopular.hn>.

<sup>m</sup> See above footnote k.

<sup>n</sup> See <http://www./bantrab.hn/>

<sup>o</sup> See <https://bancoazteca.com.hn>.

<sup>p</sup> See <https://banrural.com.hn>.

## 2. Honduras' microfinance network

113. REDMICROH<sup>13</sup> is a non-profit civil association and its main objective is to represent its members and to coordinate and channel associated institutions' resources and efforts to

<sup>13</sup> See <https://redmicroh.org/>.

promote microfinance projects for mutual benefit.

114. Through its 315 agencies, REDMICROH-affiliated MFIs are spread across the whole Honduran territory reaching 315,000 clients, 61% of which belong to the rural sector and receive inclusive financial services. Moreover, around 3,500 direct jobs were created in the MFIs by this mechanism. Currently, 705,895 of MFIs' 813,387 clients are women.

115. The total portfolio of MFIs in Honduras for February 2020 – prior to reports accounting for the COVID-19 crisis impact – amounted to approximately 11 billion Honduran lempiras (equivalent to USD 456 million), 57% of which (6.27 billion lempiras (equivalent to USD 260 million)) is destined for the country's rural sector. It is important to mention that most institutions allocate over 50% of their portfolios to the rural sector.<sup>14</sup>

116. Given the importance of sustainable rural development and women's role in the NDC, opening up a dialogue with the microfinance sector within the framework of the NDC financing contribution is of the utmost importance. A first step should include introducing NDC objectives and contributions to the REDMICROH Executive Board with the aim of identifying cooperation areas for NDC financing fund mobilization.

### **Conclusions**

117. Honduras' public and private financial sector has a solid knowledge base in fund mobilization in different sectors. It is important to consider this experience for the implementation of NDC compliance actions.

118. It is advisable to start a dialogue with the different public-private financial institutions within the framework of activities required to comply with the NDC financing contribution.

## **IV. Country knowledge of fund mobilization**

119. Honduras has broad experience in fund mobilization through bilateral international cooperation and also with multilateral financing entities to finance both the public and the private sectors. This experience should be considered when mobilizing funds for compliance with NDC objectives and contributions. NDC objectives involve different sectors of the economy; therefore, different types of public and/or private financing will be required, the combination of which will depend on the type of projects to be financed.

120. This section introduces Honduras' fund mobilization experience in the sectors that are involved in the NDC objectives and with multilateral banks, the GCF, the AF, the GEF, as well as other financing sources and the carbon market. It is important to consider this experience, as well as lessons learned, when considering future fund mobilization.

121. The final section in this chapter raises the country risk variable as a relevant consideration when assessing the mobilization of funds.

### **A. Multilateral banks**

122. Honduras has long-standing experience in mobilizing funds with multilateral banks, especially with the IDB, the WB and the CABEI. Table 6 shows some examples of loans granted in the different sectors of the economy and their executing entities. Sectors and projects directly or indirectly related to the NDC objectives have been selected. The projects included range from those submitted in 2016 that are still under implementation to projects submitted up to July 2021.

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<sup>14</sup> See <https://redmicroh.org/wp-content/uploads/2021/02/La-Industria-de-Microfinanzas-ante-Covid-19.pdf>.

Table 6

**Examples of existing projects in Honduras financed by multilateral banks and their synergies with the objectives of the nationally determined contributions: background experience for future climate change mobilization funds**

*Agriculture and rural development*

#	ID	Project/programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category synergy with NDC
1	P148737	Honduras - Innovation for Rural Competitiveness Project (COMRURAL III)	2016	INVEST-H	146 100 000	Under implementation	WB	Agriculture and rural development/ Adaptation/ Mitigation
2	P101209	Rural Competitiveness Project	2008	Secretary of Agriculture and Livestock, INVEST-H	51 200 000	Under implementation	WB	Agriculture and rural development/ Adaptation/ Mitigation
3	P158086	Additional financing for the Rural Competitiveness Project	2017	Secretary of Agriculture and Livestock, INVEST-H	35 430 000	Under implementation	WB	Agriculture and rural development/ Adaptation/ Mitigation
4	P168385	Integrating Innovation for Rural Competitiveness in Honduras (COMRURAL II)	2019	INVEST-H	146 900 000	Under implementation	WB	Agriculture and rural development/ Adaptation/ Mitigation
5	HO-T1343	Coffeechain: Digitization of the Coffee Chain to Increase the Resilience of Specialty Coffee Producers in Honduras	2020	Heifer International Project-Honduras	1 300 000	Under implementation	IDB	Agriculture and rural development/ Adaptation/ Mitigation
6	HO-G1254	Adoption of Climate-Smart Technologies in Agricultural MSMEs Led by Women	2020	INVEST-H	1 400 000	Under implementation	IDB	Agriculture and rural development/ Adaptation/ Mitigation

*Agriculture and rural development*

#	ID	Project/programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category synergy with NDC
7	HO-T1347	Sustainable Agroforestry Management and Agroforestry in Critical Basins for Water Supply in Honduras	2020	IDB and SEFIN	1 500 000	Under implementation	IDB	Agriculture and rural development/ Adaptation/ Mitigation
8	HO-L1201	Comprehensive Rural Development and Productivity Project	2019	INVEST-H	34 500 000	Under implementation	IDB	Agriculture and rural development/ Adaptation/ Mitigation
9	HO-L1211	Comprehensive Rural Development and Productivity Project	2019	INVEST-H	55 500 000	Under implementation	IDB	Agriculture and rural development/ Adaptation/ Mitigation
10	HO-T1336	Support for the Design and Monitoring of the Comprehensive Rural Development and Productivity Programme	2019	IDB	650 000	Under implementation	IDB	Agriculture and rural development/ Adaptation/ Mitigation
11	HO-L1209	Specialty Coffee Products with Quality and Traceability	2019	COMSA	1 400 000	Under implementation	IDB	Agriculture and rural development/ Adaptation/ Mitigation
12	HO-T1344	Specialty Coffee Products with Quality and Traceability	2019	COMSA	368 100	Under implementation	IDB	Agriculture and rural development/ Adaptation/ Mitigation
13	HO-T1324	Support for the Design of the Comprehensive Rural Development and Productivity Programme	2019	IDB	430 000	Under implementation	IDB	Agriculture and rural development/ Adaptation/ Mitigation

## Agriculture and rural development

#	ID	Project/programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category synergy with NDC
14	HO-T1314	Agricultural Sector: Public Expenditure, Public Policies and Strategic Vision	2018	IDB and SEFIN	500 000	24-month implementation period, finished product	IDB	Agriculture and rural development/ Adaptation/ Mitigation
15	HO-T1313	Chocolate-4-All: Digitizing the Cocoa Value Chain in Honduras	2018	IDB	3 400 000	Under implementation	IDB	Agriculture and rural development/ Adaptation/ Mitigation
<b>Total</b>					<b>480 578 100</b>			

## Energy

#	ID	Project/programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category Synergy with the NDC
1	NA	Programme for development policy operations to support the implementation of the General Law of the Electricity Industry	In preparation	SEFIN	250 000 000	In preparation	CABEI	Energy/ Adaptation/ Mitigation
2	NA	Morolica dam study	2021	NA	654 500	Under implementation	CABEI	Energy/ Adaptation/ Mitigation
3	P169667	Laying the foundations for a more sustainable Electricity Sector in Honduras	In preparation	NA	100 000 000	In preparation	WB	Energy/ Adaptation/ Mitigation
4	HO-G1258	Feminine Empowerment in Energizing with Clean Energies	In preparation	NA	1 400 000	In preparation	IDB	Energy/ Mitigation

## Energy

#	ID	Project/programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category Synergy with the NDC
5	HO-T1297	Comprehensive Management Plan for Lake Yojoa	2019	ENEE	450 000	Under implementation	IDB	Energy/ Mitigation
6	HO-G1259	Innovative Energy Solutions for Health Services in Honduras	2021	NA	500 000	Under implementation	IDB	Energy/ Mitigation
7	HO-L1203	Renovation of the Francisco Morazán Hydroelectric Power Plant to Facilitate the Integration of Renewable Energies	2020	ENEE	36 827 000	Under implementation	IDB	Energy/ Mitigation
8	HO-G1247	Rural Electrification Programme in Isolated Places	2018	ENEE	66 700 000	Under implementation	IDB	Energy/ Mitigation
9	HO-L1186	Support for the National Electric Power Transmission Programme	2018	ENEE	164 148 474	Under implementation	IDB	Energy/ Mitigation
10	HO-G1006	Support for the Integration of Honduras in the Regional Electricity Market and the Access of Renewable Energy to the Grid	2018	ENEE	7 000 000	Under implementation	IDB	Energy/ Mitigation
11	HO-T1249	Support for the Sustainable Development of Renewable Energies in Honduras	2018	ENEE	827 000	Under implementation	IDB	Energy/ Mitigation
12	HO-T1290	Preparation of a NAMA based on eco-stoves	2018	NA	131 000	Under implementation	IDB	Energy/ Mitigation



*Energy*

#	ID	Project/programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category Synergy with the NDC
<b>Total</b>					<b>628 637 974</b>			

*Water management*

#	ID	Project/Programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category Synergy with the NDC
1	P175896	Project to support the management of resilient water resources and water services	In preparation	INVEST-H	1 000 000	Under implementation	WB	Water management / Climate risk management/ Vulnerability/ Adaptation
2	P169901	Water security in the Dry Corridor of Honduras	2020	INVEST-H	85 000 000	Under implementation	WB	Water management / Climate risk management/ Vulnerability/ Adaptation
3	P170469	Tegucigalpa: Water Supply Strengthening Project	2019	Tegucigalpa municipality	126 000 000	Under implementation	WB	Water management / Climate risk management/ Vulnerability/ Adaptation
4	P173125	Urban Water Supply Strengthening Project	2020	INVEST-H	46 500 000	Under implementation	WB	Water management / Climate risk management/ Vulnerability/ Adaptation
5	HO-L1213	Drinking Water and Sanitation Programme in Honduras	In preparation	SEDECOAS	45 000 000	Under implementation	IDB	Water management / Climate risk management/ Vulnerability/ Adaptation

*Water management*

#	ID	Project/Programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category Synergy with the NDC
6	HO-T1334	Support for the Preparation of the Water and Sanitation Services Reform Programme in Tegucigalpa	2019	SEFIN	350 000	Under implementation	IDB	Water management / Climate risk management/ Vulnerability/ Adaptation
7	HO-L1207	Central District Water and Sanitation Services Reform Programme	2019	SEFIN	60 000 000	Under implementation	IDB	Water management / Climate risk management/ Vulnerability/ Adaptation
8	HO-G1252	Programme for the Restoration of Climate-resilient Forests and Forestry for Sustainable Water-related Ecosystem Services	2019	SEFIN	24 262 651	Under implementation	IDB	Water management / Climate risk management/ Vulnerability
9	HO-L1200	Programme for the Restoration of Climate-resilient Forests and Forestry for Sustainable Water-related Ecosystem Services	2019	SEFIN	10 737 349	Under implementation	IDB	Water management / Climate risk management/ Vulnerability
<b>Total</b>					<b>398 850 000</b>			

*Climate risk management*

#	ID	Project/programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category Synergy with the NDC
1	P131094	Disaster Risk Management Project	2013	COPECO	30 000 000	Under implementation	WB	Risk management/ Adaptation/ Vulnerability

2	P175977	Honduras Tropical Cyclones Eta and Iota Emergency Recovery Project	2021	SEDECOAS	150 000 000	Under implementation	WB	Risk management/ Adaptation/ Vulnerability
3	HO-L1222	Emergency Programme in Response to Tropical Storm Eta	In preparation	NA	20 000 000	In preparation	IDB	Risk management/ Adaptation/ Vulnerability
4	HO-T1385	Emergency support due to Iota tropical depression in Honduras	2020	Adventist Development and Relief Agency	200 000	Under implementation	IDB	Risk management/ Adaptation/ Vulnerability
<b>Total</b>					<b>200 200 000</b>			

*Resilient infrastructure*

#	ID	Project/programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category Synergy with the NDC
1	HO-O0004	Financial and Risk Mitigation Programme for Strategic Investments in the Northern Triangle	2018	NA	200 000 000	Under implementation	IDB	Resilient infrastructure/ Vulnerability/ Mitigation
2	HO-T1373	Comprehensive Structuring of the Concession of the Airports of La Ceiba, Roatán and San Pedro Sula	2021	APP Technical Unit and the Secretariat of Infrastructure and Public Services	750 000	Under implementation	IDB	Resilient infrastructure/ Adaptation/ Mitigation
3	NA	Road Infrastructure Programme	NA	INVEST-H	150 000 000	Under implementation	CABEI	Resilient infrastructure/ Vulnerability/ Adaptation
<b>Total</b>					<b>350 750 000</b>			

*Financial markets and economic development*

#	ID	Project/Programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category Synergy with the NDC
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1		Honduras - Credit for Disaster Risk Management Development Policies with Deferred Disbursement Option for Catastrophes	2020	SEFIN	119 000 000	Under implementation	WB	Financial markets/ Climate risk management/ Vulnerability
2	P172567							
3	HO-T1300	Review of the Restructuring Law of the BANHPROVI	2018	BANHPROVI	250 000	Under implementation	IDB	Financial markets/ Climate risk management/ Vulnerability
	HO-L1217	Programme for the Financing of the Industrial Development of Honduras	In preparation	SEFIN and BANHPROVI	40 000 000	In preparation	IDB	Financial markets/ Adaptation/ Mitigation
				<b>Total</b>	<b>159 250 000</b>			

*Food security and community economic development*

#	ID	Project/Programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category Synergy with the NDC
1	P167767	Improving the livelihoods of Miskito indigenous peoples in La Moskitia	2020	Help in Action Foundation	2 720 000	Under implementation	WB	Food security / Adaptation / Vulnerability
2	P148737	Dry Corridor Food Safety Project	2016	INVEST-H	37 800 000	Under implementation	WB	Food security / Adaptation / Vulnerability
				<b>Total</b>	<b>40 520 000</b>			

*Reform-modernization of the State*

#	ID	Project/Programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category Synergy with the NDC
1	HO-T1359	Institutional support strategy and sustainable economic recovery in the context of COVID-19	2020	SEFIN	990 000	Under implementation	IDB	Reform-modernization of the State/Financial markets/ Adaptation

Reform-modernization of the State

#	ID	Project/Programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category Synergy with the NDC
2	HO-T1357	Strengthening of the Private-Public Partnership Programme in Honduras, second generation	2020	SEFIN	650 000	Under implementation	IDB	Reform-modernization of the State/ Adaptation/ Mitigation/ Vulnerability
3	HO-T1350	Support for the Promotion of Women in Public Procurement in Honduras	2020	Hiring and Procurement Regulations Office of the State of Honduras	285 000	Under implementation	IDB	Reform-modernization of the State/Financial markets/ Adaptation
4	HO-T1354	Formulation of a Master Plan for the Comprehensive Modernization of the Police Service in Honduras	2020	IDB	250 000	Under implementation	IDB	Reform-modernization of the State/ Adaptation/ Mitigation/ Vulnerability
5	HO-T1325	Support for the Improvement in the Quality of Public Expenditure	2019	NA	100 000	Under implementation	IDB	Reform-modernization of the State/ Adaptation/ Mitigation/ Vulnerability
6	HO-T1321	Strengthening of Public Investment Management for Economic Development with Social Inclusion	2018	SEFIN	400 000	Under implementation	IDB	Reform-modernization of the State/ Adaptation/ Mitigation/ Vulnerability
7	HO-T1320	Strengthening the Internal and External Public Debt Management Capacity of the General Directorate of Credit and Public Debt	2018	SEFIN	481 500	Under implementation	IDB	Reform-modernization of the State/ Adaptation/ Mitigation/ Vulnerability

*Reform-modernization of the State*

#	ID	Project/Programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category Synergy with the NDC
<b>Total</b>					<b>3 156 500</b>			

*Private companies and development of small and medium-sized enterprises*

#	ID	Project/Programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category Synergy with the NDC
1	HO-G1256	Digitization of the Micro and Small Entrepreneurship Sector -Digital HUB 504	2020	Federation of Chambers of Commerce and Industry of Honduras	5 474 000	Under implementation	IDB	Private enterprise and SME development/Climate finance future support
2	HO-T1353	Business Development Services and a Favourable Environment for Women Entrepreneurs in Honduras	2019	National Directorate of Ciudad Mujer; and National Service of Entrepreneurship and Small Business	4 110 000	Under implementation	IDB	Private enterprise and SME development/Climate finance future support
3	HO-T1331	Promotion of Competitiveness, Investment and Employment in Honduras	2019	IDB	215 000	Under implementation	IDB	Private enterprise and SME development/Climate finance future support
4	HO-T1332	Capacity-Building to Support the Orange Economy	2019	IDB	150 000	Under implementation	IDB	Private enterprise and SME development/Green resilient infrastructure/Climate finance future support
<b>Total</b>					<b>9 949 000</b>			

<i>Transport</i>								
#	ID	Project/Programme	Approval date	Executing entity	Total investment (USD)	Status	Participating financial entity	Sector/category Synergy with the NDC
1	HO-L1219	Programme for the Reform of the Transport and Logistics Sector of Honduras III	In preparation	NA	1 18 480 000	In preparation	IDB	Transport/ Mitigation
2	HO-T1333	Support to the Transportation and Logistics Reform Programme	2019	Secretary of Finance, Secretary of Infrastructure and Public Services	288 844	Under implementation	IDB	Transport/ Adaptation/ Mitigation
<b>Total</b>					<b>118 768 844</b>			
<i>Tropical diseases (Malaria)</i>								
#	ID	Project/Programme	Approval date	Executing entity	Honduras total investment (USD)	Status	Participating financial entity	Sector/category Synergy with the NDC
1		HONDURAS - Regional Initiative for the Elimination of Malaria in Mesoamerica and the Dominican Republic	2017/2018	Executive Directorate of the Mesoamerica Project and Executive Secretariat of the Council of Ministers of Health of Central America and the Dominican Republic	11 141 686	Under implementation	IDB	Health/ Tropical diseases/ Vulnerability/ Adaptation
<b>Total</b>					<b>11 141 686</b>			

Source: IDB, WB, CABEL.

### *Conclusions*

123. It is clear that Honduras has experience in fund mobilization with multilateral financial entities and that the CABEL, IDB and WB play a key role in the economic development of the country. These entities will play a key role in the definition of NDC-related fund mobilization in Honduras.

124. SEFIN, INVEST-H and ENEE are key actors in the public investment system. As explained above, SEFIN is responsible for authorizing public investments. As regards executing entities, on the basis of the analysis herein, INVEST-H and ENEE are responsible for the management of 60% of public investment allocated to the set of projects presented above. Based on this evidence, it can be stated that these entities will play a key role in the NDC objectives and contributions implementation process.

125. In order to start the fund mobilization process for NDC implementation, the following actions are recommended:

(a) To encourage a dialogue between SEFIN and the NDC focal point in order to determine how to integrate NDC objectives and contributions into the public investment system. Several projects that are currently being financed could have been considered as part of NDC compliance. However, the financial arrangements were not structured with the vision of NDC compliance or climate finance fund mobilization. The dialogue between the aforementioned parties might analyse the role to be played by INVEST-H and ENEE in implementing the NDC.

(b) Once point (a) is settled, it is advisable to establish a dialogue between SEFIN and the main multilateral banks to begin to define the climate finance concept and what projects will be considered eligible for such future finance products and in what terms (e.g. type of project, interest rates, grace period, repayment period, loan term).

(c) In addition, the NDC focal point and SEFIN should jointly promote a dialogue with the national financial sector. Here, the initial phase of this dialogue should include an introduction of NDC concepts and commitments with the following financial entities: AHIBA, REDMICROH, BANADESA, BANHPROVI and the CNBS Financial Inclusion Board.

(d) Once the dialogue described in point (c) has been established, it is advisable to carry out specific research in order to identify the existing financing lines at the national level that might contribute to financing NDC-related projects. In so doing, the strengths and weaknesses of the financial sector in relation to the role it would play in financing NDC-related projects will become clear. The present needs-based finance report has provided some initial guidance; however, specific research is recommended. The results of that research will be submitted to the financial entities that will participate in the process, as well as to SEFIN and the NDC focal point.

## **B. Public investment program**

126. Section III.A. above presented the highlights of the public investment programme cycle and its relation with the NDC. The present section introduces some examples of projects currently included in the Pluriannual Plan (2019–2020), projects that have potential for synergy with the NDC.

127. Table 7 provides projects included in the SEFIN Public Investment Program – Pluriannual Plan (2019–2022), selected according to their potential synergy with NDC objectives, along with investment amounts and sector or category involved.



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Table 7

**Projects included in the Secretary of Finance Public Investment Program – Pluriannual Plan (2019–2022)**

<i>Project</i>	<i>Total investment (USD)</i>	<i>Sector/category Synergy with the NDC</i>
Promoting fast and accessible justice in Honduras (EuroJustice)	7 000 000	Reform and modernization of the State/Vulnerability/Adaptation/Mitigation
Public Transportation Project for the Central District	6 000 000	Transport/Mitigation/Adaptation
Renewable energy project for sustainable rural development Rural Pro-Energy	7 000 000	Energy/Adaptation/Mitigation
CABEI	659 000	Resilient infrastructure/Adaptation/Vulnerability
School infrastructure improvement programme (PROMINE/KfW)	15 000 000	Resilient infrastructure/Vulnerability
Productivity and opportunity for development through renewable energy	2 000 000	Energy/Mitigation/Vulnerability
Road integration programmes, logistics corridors and road improvement	183 000 000	Resilient infrastructure/Adaptation/Vulnerability
Pilot Programme for Climate Resilience	805 000	Climate risk management/Adaptation/Vulnerability
Modernization of the electricity sector and maintenance of hydroelectric projects	143 000 000	Energy/Mitigation/Vulnerability
Land titling programme	200 000	Land-use planning/Vulnerability
Sustainable Forest Management	7 000 000	Sustainable management of forests and forest conservation/Mitigation/Vulnerability
Irrigated Agricultural Development Project (PDABR)	19 000 000	Agriculture and rural development/Water management/Adaptation/Vulnerability
Sustainable Rural Development Programme for the Southern Region	4 600 000	Agriculture and rural development/Adaptation/Vulnerability
Competitiveness and Sustainable Development Project of the south western border corridor (PRO-LENCA)	16 000 000	Agriculture and rural development/Adaptation/Vulnerability
Strengthening the capacities of the Project Management Unit of the Ministry of Agriculture and Livestock	127 000	Agriculture and rural development/Adaptation/Vulnerability
Adaptation to Climate Change in the Forest Sector	5 300 000	Sustainable management of forests and forest conservation/Adaptation
Complementary Measure to the Project for Communal Land Management and Environmental Protection in Río Plátano	2 100 000	Land-use planning/Water management/Adaptation/Vulnerability
Support to the Strengthening of the National System of Science, Technology and Innovation of Honduras	153 000	Education/Adaptation
Project for social inclusion in higher education and promotion of sustainable production	1 200 000	Education/Adaptation
Disaster risk management project	9 700 000	Climate risk management/Adaptation/Vulnerability
<b>Total</b>	<b>433 844 000</b>	

*Source:* Author's elaboration based on data from the SEFIN Public Investment Program – Pluriannual Plan (2019–2022)

**Conclusions**

128. The different procedures currently in place within the SEFIN Public Investment Program and the experience gained through those procedures are significant tools to bear in mind for financing NDC-related projects.

129. It is important to note that the projects that have been included in the present analysis have not been categorized as part of NDC compliance commitments. Nonetheless, such information should be considered for future categorizations within the Public Investment Program – Pluriannual Plan.

**C. Green Climate Fund**

130. Honduras has experience in fund management with the GCF.<sup>15</sup> Table 8 sets out GCF initiative concept notes submitted between 2019 and 2020 and the funds approved to date.

Table 8  
**Green Climate Fund initiatives concept notes submitted in 2019–2020**

<i>Date</i>	<i>Activity</i>	<i>Description</i>
January 2019	Entity support for Honduras through the United Nations Environment Programme	There are a variety of social and environmental safeguards frameworks applicable to current climate change projects and programmes in Honduras, including the Cancun safeguards for REDD+, WB environmental and social policies, as well as the IFC performance standards, which are also applied as interim standards by the GCF. The safeguards and associated processes to apply and report on the safeguards of each framework often need to be contextualized in each country where they are applied, but the frameworks are not usually connected and sometimes they respond only to specific sectors of climate change. In addition, as safeguards frameworks are updated and as countries seek to access new and different sources of financing, there is a need for countries to develop flexible approaches to meeting multiple safeguard requirements. For this reason, Honduras is committed to establishing a National Framework for Social and Environmental Safeguards applicable to the climate change projects and programmes from different sectors that are relevant to fulfilling the country’s commitments under the Paris Agreement (energy sector, solid waste, agriculture, industry, land-use change), and to do so in a participatory manner involving key stakeholders (with special emphasis on indigenous peoples, Afro-Hondurans and women) and other relevant actors. The project will also contribute to raising awareness of and helping to meet the GCF environmental and social standards, as well as other applicable standards, while maintaining flexibility to be able to respond to new or different safeguards requirements.
March 2019	Ecosystem-based adaptation to increase climate resilience in the Central American Dry Corridor and the arid zones of the Dominican Republic	This concept note provides basic information on the “Ecosystem-based adaptation to increase climate resilience in the Central American Dry Corridor and the arid zones of the Dominican Republic” project and was submitted to allow the project proponent a chance to seek feedback from the GCF secretariat about whether their proposal matches the objectives and mandate of the GCF.
May 2019	Implementing hybrid low-carbon systems to improve energy supply and energy efficiency while mitigating climate impact for SMEs in Colombia, Honduras and Panama	This concept note provides basic information on the project/programme “Implementing hybrid low-carbon systems to improve energy supply and energy efficiency while mitigating climate impact for SMEs in Colombia, Honduras and Panamá” and was submitted to allow the project proponent a chance to seek feedback from the GCF secretariat about whether their proposal matches the objectives and mandate of the GCF.
July 2019	Sustainable Coffee of Honduras NAMA	This concept note provides basic information on the Sustainable Coffee of Honduras NAMA project and was submitted to allow the project proponent a

<sup>15</sup> <https://www.greenclimate.fund/>.

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<i>Date</i>	<i>Activity</i>	<i>Description</i>
April 2020	Climate Resilient Corridor Initiative	<p>chance to seek feedback from the GCF secretariat about whether their proposal matches the objectives and mandate of the GCF.</p> <p>Honduras is highly exposed to negative effects of climate change, which are expected to have a significant negative impact on agricultural systems and the well-being and health of highly vulnerable small-scale farmers in the Dry Corridor of Honduras. The project aims to increase the resilience to climate change of their livelihoods and their families' well-being and health by facilitating the adoption of climate-resilient agriculture approaches and "climate-proofing" their housing. The project will address other important barriers to adaptation, such as water scarcity and ineffective conservation and use of plant genetic resources. Executing entities would be INVEST-H and the Food and Agriculture Organization of the United Nations.</p>
November 2020	Fostering sustainable urban mobility with efficient and low-emission transport in Tegucigalpa	<p>In Honduras, road transport contributes 43% of the GHG emissions produced by the energy sector and has shown steady growth over the last decade. The Government of Honduras highlighted in its NDC the importance of the transport sector for the country's economy. As such, achieving sustainability in the transport sector is one of the priorities at the national level. The objective of this project is to set a standard to reduce GHG emissions produced in the transport sector, which will have ancillary benefits such as improving the competitiveness of the city of Tegucigalpa, revitalizing the public space and showing a renewed perspective on how technology can help in fighting climate change. For this purpose, the project will create an enabling environment for low-carbon transport investment, together with a demonstrative component (pilot) to road test electric vehicles under the specific conditions of Tegucigalpa.</p>

*Source:* Author's elaboration based on data from the GCF.

**Table 9**  
**Approved projects**

<i>Date</i>	<i>Activity</i>	<i>Description</i>
October 2018	FP097: Productive Investment Initiative for Adaptation to Climate Change  Date approved: October 2018 Completion: September 2024 Category: Intermediation 3	<p>Reducing obstacles for MSMEs to access credit and supporting the best available adaptation measures in seven Central American countries.</p> <p>While agriculture, livestock and forestry are key sectors in Central American economies, they are highly sensitive to climate change. Conservative banking practices and high perceived risks associated with operations in rural areas mean rural MSMEs have limited access to credit in financing adaptation measures.</p> <p>This initiative will provide concessional loans and technical assistance to encourage MSMEs to invest in adaptation. It is also designed to consolidate agricultural production systems adapted to climate change. A grant component of this programme will provide financial rewards to MSMEs and intermediary financial institutions for their successful implementation of adaptation activities. The programme has an estimated lifespan of 15 years.</p> <p><b>Executing entity:</b> CABEI  <b>Beneficiaries:</b> Intermediary financial institutions and MSMEs</p> <p><b>GCF</b>            Loan: USD 12 500 000            Subsidy: USD 3 000 000            Total financing GCF: 15 500 000</p> <p><b>Co-financing</b>            Loan: USD 12 500 000            Total co-financing: USD 12 500 000</p>
July 2019	FP111: Promoting climate-resilient forest restoration and silviculture for the sustainability of water-related ecosystem services  Date approved: July 2019	<p>This project will foster a paradigm shift in forest management towards a model that is based on the active participation of local communities and the private sector. It will promote the diversification of livelihoods in rural areas and create enabling conditions to improve the governance and financial stability of the forest sector. Associated benefits include an increase of water security, especially during the dry season; the protection of pine forests; the reduction of</p>

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<i>Date</i>	<i>Activity</i>	<i>Description</i>
	Completion: November 2025 Category: Category B	emissions through improved forest and land use; and economic and social benefits for households. This project has an estimated lifespan of 5 years.
		<b>Executing entity:</b> SEFIN
		<b>GCF</b> Loan: USD 10 737 349 Subsidy USD 24 262 651 Total funding GCF: 35 000 000
		<b>Co-financing</b> Loan: USD 25 000 000 Subsidy: USD 1 500 000 Subsidy: USD 17 500 000 Total co-financing: USD 44 000 000

*Source:* Author's elaboration based on data from the GCF.

### 1. Multi-country funds approved

131. The projects set out in table 10 include Honduras as one of the potential beneficiaries as it is included in the list of fund-requesting countries.

Table 10  
**Multi-country funds approved for projects with Honduras nominally included as beneficiary**

<i>Date</i>	<i>Activity</i>	<i>Description</i>
November 2020	FP152: SnCF Global – Variable Income  Date approved: November 2020 Completion: April 2033 Category: Intermediation 2 Accredited entity: Pegasus Capital Advisors	The goal of the SnCF Global is to catalyse long-term climate investment at the subnational level for mitigation and adaptation solutions through a transformative financing model. The SnCF Global's business model is designed to attract primarily private institutional investment and to deliver certified climate and sustainable development impacts and nature-based solutions at global scale.  Total capital: USD 150 000 000 (co-funding GCF) + 600 000 000 (co-funding)  Executing entities: Pegasus Capital Advisors, L.P., SnCF Global, R20 Regions of Climate Action, and Gold Standard Foundation  Implementing entity: IUCN
November 2020	FP151: SnCF Global - Technical Assistance Fund  Date approved: November 2020 Completion: April 2028 Category: Intermediation 2	The goal of the SnCF Global is to catalyse long-term climate investment at the subnational level for mitigation and adaptation solutions through a transformative financing model. The SnCF Global's business model is designed to attract primarily private institutional investment and to deliver certified climate and sustainable development impacts and nature-based solutions at global scale.  The subnational level is key: 70% of known climate solutions are located within the boundaries of subnational authorities. Significant additional investment is needed in this sector to achieve the climate goals of the Paris Agreement. The SnCF Global presents a positive disruptive solution on how subnational climate projects should be structured, de-risked and funded by both private and public investors, while monitored and benchmarked at the highest level of rigour and quality.  Total: 18 500 000 USD in subsidies by the GCF and an additional subsidy of 8 100 000 USD (co-financing)  Executing entities: R20 Regions of Climate Action, Gold Standard Foundation, IUCN

*Source:* Author's elaboration based on data from the GCF.

132. As shown so far, Honduras has experience in submitting projects to the GCF. However, Honduras is the exclusive beneficiary country only in project FP111, while there are other approved projects where Honduras could be one of the beneficiary countries (e.g. FP097, FP151 and FP152, listed in table 11). There is no specific data on access to these funds for project activities in Honduras.

Table 11  
Green Climate Funds available for Honduras

<i>Project ID</i>	<i>Project</i>	<i>Approval date</i>	<i>Executing entity</i>	<i>Total investment (USD)</i>	<i>Status</i>
FP097	Productive Investment Initiative for Adaptation to Climate Change (CAMBio II)-Multi-country	Approved 2018	CABEI	28 000 000	Under implementation
FP151	SnCF Global - Technical Assistance fund. Multi-country	Approved 2020	R20 Regions of Climate Action, a Swiss association subject to Swiss association laws. Gold Standard Foundation	26 600 000	Under implementation
FP152	SnCF Global – Variable Income. Multi-countries	Approved 2020	Pegasus Capital Advisors, L.P. (Pegasus) and IUCN (Implementing entity: IUCN)	750 000 000	Under implementation

Source: Author’s elaboration based on data from the GCF.

133. Throughout the development of this consulting work it could not be determined whether Honduras has effectively received the above-mentioned funds for these three projects. It is important to note that the GCF is a limited fund in terms of resources, meaning it has to search for resources in order to keep supporting the countries in their struggle against climate change. Therefore, each country will have an individual access quota according to its needs and the Fund’s priorities. It is recommended that a detailed study be performed on Honduras’ access to the GCF and what projects will require GCF resources. It is important to use GCF resources strategically and to align them with the existing financing lines from other financing entities. GCF funds must be visualized within Honduras’ national climate finance strategy and assessed along with other financial resources according to the type of project to be allocated to. Consequently, it is important to align and coordinate all financing sources that will contribute to the NDC implementation.

#### D. Bilateral and multilateral cooperation

134. Honduras has experience in bilateral cooperation with different countries worldwide, as well as with multilateral cooperation entities that have supported several sectors in the country for many years now. The role of bilateral cooperation has been mainly centred in grants. According to an analysis carried out by the OECD, the following grants and financing means were granted to Honduras in 2016–2018.

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**Table 12**  
**Climate-related finance granted by country/provider**

<i>Provider</i>	<i>Extending agency</i>	<i>Year</i>	<i>Sector</i>	<i>Financial instrument</i>	<i>Amount (USD)</i>
Belgium	Directorate General for Co-operation and Development	2016	Agriculture	Grants	364 291
		2017	Agriculture	Grants	313 658 *
		2018	Agriculture	Grants	416 433 *
	<b>Total</b>				
Canada	Global Affairs	2016	Forestry	Grants	4 709 522
		2016	Industry	Grants	4 709 522
		2017	Agriculture	Grants	565 144 *
		2017	Business and other services	Grants	220 980 *
		2017	Water supply and sanitation	Grants	107 070 *
		2017	Education	Grants	55 245
		2017	Tourism	Grants	55 245
		2018	Business and other services	Grants	750 789
		2018	Education	Grants	295
		2018	Industry	Grants	682
		2018	Forestry	Grants	2 502 630 *
		2018	General environment protection	Grants	1 001 620 *
		2018	Government and civil society – General	Grants	750 789
		2018	Secondary education	Grants	273
<b>Total</b>					<b>15 430 260</b>
EU institutions (excl. European Investment Bank)	Commission of the European Communities	2017	Agriculture	Grants	8 753 547 *
		<b>Total</b>			
Finland	Ministry of Foreign Affairs	2016	Agriculture	Grants	71 702
		2018	Agriculture	Grants	299 356 *
	<b>Total</b>				
France	Ministry of Foreign Affairs	2017	Other multisector	Grants	6 384
		2018	Other multisector	Grants	18 769
	Proparco	2018	Banking and financial services	Debt	33 949 519
	<b>Total</b>				

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Germany	Federal State of Bavaria	2016	Agriculture	Grants	71 022
	Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung	2016	Agriculture	Grants	993 034 *
		2016	General environment protection	Grants	2 985 735 *
		2016	Government and civil society – General	Grants	252 129
		2016	Other multisector	Grants	774 079
		2017	Agriculture	Grants	718 765 *
		2017	General environment protection	Grants	3 267 114
		2018	Agriculture	Grants	626 177 *
		2018	General environment protection	Grants	8 983 168 *
		2018	Government and civil society – General	Grants	331 896
2018	Other multisector	Grants	17 922 383 *		
<b>Total</b>					<b>36 925 502</b>
Ireland	Department of Foreign Affairs	2016	Agriculture	Grants	576 713 *
		2018	Agriculture	Grants	188 750
		2018	General environment protection	Grants	171 752 *
<b>Total</b>					<b>937 215</b>
Italy	Earmarked fiscal flows to non-governmental organizations and religious organizations	2016	General environment protection	Grants	46 081
<b>Total</b>					<b>46 081</b>
Japan	Japanese International Co-operation Agency	2016	Energy policy	Grants	15 183
		2016	Energy generation renewable sources	Grants	8 134
		2016	Forestry	Grants	352 841
		2017	Energy policy	Grants	31 841 *
		2017	Disaster prevention and preparedness	Grants	172 375 *
		2017	Forestry	Grants	811
		2017	Water supply and sanitation	Grants	21 104 *
		2018	General environment protection	Grants	54 517 *
		2018	Other multisector	Grants	75,076 *
2018	Energy policy	Grants	12 194		

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	Ministry of Agriculture Forestry and Fisheries	2016	Forestry	Grants	196 224
	Ministry of Foreign Affairs	2017	Disaster prevention and preparedness	Grants	8 828 909
		2017	Water supply and sanitation	Grants	15 925 213
	<b>Total</b>				<b>17 694 422</b>
Korea	Korea International Cooperation Agency	2016	Water supply and sanitation	Grants	17 210
		2016	General environment protection	Grants	16 188
		2017	General environment protection	Grants	19 318
		2017	Disaster prevention and preparedness	Grants	24 765
		2018	Communications	Grants	16 335
		2018	Disaster preparedness	Grants	24 112
		2018	General environment protection	Grants	28 416
		2018	Other multisector	Grants	15 799
	<b>Total</b>				<b>162 143</b>
Spain	Autonomous Governments	2016	Agriculture	Grants	32 822
		2016	Developmental food aid/Food security assistance	Grants	95 494
		2016	Water supply and sanitation	Grants	333 818 *
		2016	Other multisector	Grants	110 219
	Comunidad Autónoma de Andalucía	2018	Other multisector	Grants	753 912 *
	Comunidad Autónoma de Castilla-La Mancha	2017	Agriculture	Grants	87 807
	Comunidad Autónoma de las Illes Balears	2018	Agriculture	Grants	41 708
	Comunidad Autónoma de Galicia	2017	Water supply and sanitation	Grants	131 689
	Comunidad Autónoma de Galicia	2018	Water supply and sanitation	Grants	251 304
	Comunidad Autónoma del Principado de Asturias	2017	Water supply and sanitation	Grants	102 276
Ministry of Defence	2017	Disaster prevention and preparedness	Grants	2 173	



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	2018	Disaster preparedness	Grants	224
Municipalities	2017	Other multisector	Grants	18 264
	2018	Agriculture	Grants	14 197
	2018	Basic education	Grants	16 754
	2018	General environment protection	Grants	61 089
	2018	Water supply and sanitation	Grants	184 294
	2018	Other multisector	Grants	12 331
Public universities	2016	General environment protection	Grants	2 947
	2016	Health	Grants	10 505
	2016	Water supply and sanitation	Grants	5 275
	2017	Business and other services	Grants	3 364
	2017	Education	Grants	4 598
	2017	Other social infrastructure and services	Grants	2 267
	2018	Energy generation renewable sources	Grants	2 530
	2018	Post-secondary education	Grants	4 054
	2018	Tourism	Grants	2 145
	2018	Unallocated/Unspecified	Grants	1 765
Spanish Agency for International Development Co-operation	2016	Disaster prevention and preparedness	Grants	54 738
	2016	Government and civil society – General	Grants	249 992 *
	2017	Government and civil society – General	Grants	87 806 *
	2018	Agriculture	Grants	955 201 *
	2018	Basic health	Grants	279 227
	2018	Development food assistance	Grants	111 691
	2018	Government and civil society – General	Grants	3 528 487 *
	2018	Industry	Grants	500 320 *
	2018	Trade policies and regulations	Grants	40 740
	2018	Tourism	Grants	139 613
2018	Other multisector	Grants	1 475 212 *	

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Spain		2017	General environment protection	Grants	219 516
	Ministry of Foreign Affairs and Co-operation	2018	Water supply and sanitation	Grants	4 751 127
	<b>Total</b>				<b>14 683 495</b>
Sweden	Swedish International Development Authority	2018	Government and civil society – General	Grants	392 814
		2018	Other multisector	Grants	31 725
		2018	Other social infrastructure and services	Grants	152 281
	<b>Total</b>				<b>576 820</b>
Switzerland	Swiss Agency for Development and Co-operation	2016	Water supply and sanitation	Grants	152 269
		2017	Government and civil society – General	Grants	2 169 394 *
		2017	Industry	Grants	5 061 919 *
		2018	Government and civil society – General	Grants	2 481 086 *
		2018	Industry	Grants	5 789 202 *
		<b>Total</b>			
United States	Agency for International Development	2016	Agriculture	Grants	6 850 000 *
		2017	Agriculture	Grants	2 308 476 *
		2018	Agriculture	Grants	4 258 157 *
		2017	Business and other services	Grants	3 831 087 *
		2018	Business and other services	Grants	2 249 479 *
		2016	General environment protection	Grants	6 098 331 *
		2017	General environment protection	Grants	6 627 025 *
		2018	General environment protection	Grants	3 554 647 *
		2016	Government and civil society – General	Grants	8 813 000 *
		2016	Other multisector	Grants	481 395 *
		2017	Other multisector	Grants	20 324
<b>Total</b>				<b>45 091 921</b>	
AF		2017	Agriculture	Grants	1 292 071
		2017	Forestry	Grants	4 379 700
		2017	General environment protection	Grants	430 690
		2017	Water supply and sanitation	Grants	1 292 071

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		2017	Other multisector	Grants	1 292 071
	Total				<b>8 686 603</b>
Climate Investment Funds	Strategic Climate Fund	2017	Energy generation renewable sources	Grants	14 100 264 *
	Total				<b>14 100 264</b>
GEF	GEF (general)	2016	Forestry	Grants	13 286 697
	GEF Capacity-building Initiative for Transparency	2018	General environment protection	Grants	1 123 751 *
	Total				<b>14 410 448</b>
International Fund for Agricultural Development		2018	Agriculture	Debt	15 662 395 *
	Total				<b>15 662 395</b>
<b>Grand total</b>					<b>244 255 098</b>

*Source:* 2016-2018 OECD Climate Related Development Finance Recipient Perspective Honduras.

*Note:* \* means figures with the same extending agency, financial instrument, sector and year received were combined.

135. Additional information is related to Norfund from Norway, which normally finances banks, funds and MFIs with regional activities (e.g. Inter-American Investment Corporation, Banco Financiera Comercial Hondureña, Locfund, Optima Financial Services). Norfund has provided direct financing in Honduras to Scatecsolar projects (Agua Fría and Los Prados) between 2014 and 2015.

### **Conclusions**

136. Bilateral cooperation and the participation of other financing sources are relevant to Honduras. However, the analysis carried out on the projects in this section shows that bilateral cooperation through grants barely accounts for 10% of the total fund mobilization volume analysed in the present document between 2016 and 2021. Grants may mobilize certain specific activities required for NDC-related project implementation, yet the actual implementation of such projects will be structured as debt instruments. For example, grants might be used for NDC-related project design to be submitted later on to the different financing entities. They might also be used to design a payment trust for environmental services or a project document for climate change mitigation, among other activities.

137. In order to comply with NDC-related commitments, the challenge will lie in the adequate identification of each project, the project design, and the capital and debt structuring for its implementation. The debt may be public or private. Honduras will therefore have to start working, both from the public and the private standpoint, with financing entities to define the climate finance concept and to identify co-existence or synergies with current financing types.

## **E. The carbon market**

138. Honduras has extensive private experience in the carbon market within the framework of the Kyoto Protocol. Table 13 lists Honduras' 30 registered CDM projects.

Table 13

**List of Honduras' clean development mechanism projects**

#	Registration date	Project name	Sponsor	Sector	Crediting period	Starting date	Verification	t CO <sub>2</sub> /year	Total CO <sub>2</sub> /project	Annex 1	Project life under CDM project
1	January 2005	Rio Blanco Small Hydroelectric Project	Sociedad Hidroeléctrica Río Blanco S.A. de C.V	Renewable energy	10 years	2004	Verification report up to 2013	17 800	178 000	Finland	2014
2	April 2005 (PPD modification 2013)	Cuyamapa Hydroelectric Project	ENETRAN	Renewable energy	10 years	2006	Verification report up to 2012	35 660	356 600	Austria United Kingdom of Great Britain and Northern Ireland	2016
3	June 2005 (PDD modification 2009)	Cortecito and San Carlos Hydroelectric Project	Hidro Centrales Eléctricas de Honduras S.A.	Renewable energy	10 years	2006	Verification report up to 2012	37 466	374 660	United Kingdom of Great Britain and Northern Ireland	2016
4	August 2005 (PDD modification 2018)	La Esperanza Hydroelectric Project	Consorcio de Inversiones S.A.	Renewable energy	21 years	2003	Third crediting period requested 2017–2024. Verification report up to 2018	37 032	777 672	Canada Netherlands Italy Denmark Finland Austria Luxembourg Belgium Sweden Germany Switzerland Japan Norway Spain	2024

#	Registration date	Project name	Sponsor	Sector	Crediting period	Starting date	Verification	t CO <sub>2</sub> /year	Total CO <sub>2</sub> /project	Annex 1	Project life under CDM project
5	November 2005 (PDD modification 2013)	Cuyamel Hydroelectric Project	Honduras Electric Corporation S.A.	Renewable energy	21 years	2006	Second crediting period requested 2013–2020. Verification report up to 2012	25 353	532 413	Switzerland United Kingdom of Great Britain and Northern Ireland	2027
6	January 2006 (PDD modification 2014)	La Gloria Hydroelectric Project	ELECTROTEC NIA S.A. de C.V.	Renewable energy	21 years	2006	Second crediting period requested 2013–2020. Verification report up to 2012	20 464	429 744	United Kingdom of Great Britain and Northern Ireland	2027
7	March 2006	Yojoa Small Hydropower Project	HIDROYOJOA S.A. de C.V.	Renewable energy	10 years	2005	Verification report up to 2006	1 069	10 690	Finland	2015
8	March 2006 (PDD modification 2013)	Zacapa Mini Hydro Station Project	CENIT S.A. de C.V.	Renewable energy	10 years	2006	Verification report up to 2010	915	9 150	Finland	2016
9	March 2006 (PDD modification 2013)	CECECAPA Small Hydroelectric Project	Compañía de Generación Eléctrica S.A. de C.V.	Renewable energy	10 years	2005	Verification report up to 2010	1 877	18 770	Finland	2015
10	March 2011	Mezapa Small-Scale Hydroelectric Project	Sociedad Electrica Mesoamericana, S.A.	Renewable energy	21 years	2011	8 Mar 2011 – 7 Mar 2018. Was renewable, but now expired; renewal no longer possible. No requests for issuance	24 969	524 349	Sweden Spain	2032

#	Registration date	Project name	Sponsor	Sector	Crediting period	Starting date	Verification	t CO <sub>2</sub> /year	Total CO <sub>2</sub> /project	Annex 1	Project life under CDM project
11	June 2011	Coronado Hydroelectric Project	Energisa S.A. de C.V.	Renewable energy	21 years	2012	1 Jan 2012 – 31 Dec 2018 Was renewable, but now expired; renewal no longer possible. Project activity has been implemented, but no decision by project participants or the coordinating/mana ging entity on whether to proceed with the request for issuance stage	23 982	503 622	Switzerland	2033
12	August 2011	La Vegona Hydroelectric Project	Compañía Hondureña de Energía Renovable S.A. de C.V.	Renewable energy	21 years	2013	1 Mar 2013 – 29 Feb 2020. Was renewable, but now expired; renewal no longer possible	109 168	2 292 528		2034
13	September 2012	San Martin Hydroelectric Project	Inversiones San Martin S.A. de C.V.	Renewable energy	21 years	2013	24 Jan 2014 – 23 Jan 2021. Renewable. Changed from: 1 Mar 2013 – 29 Feb 2020	7 269	152 649		2034
14	December 2012	San Juan Hydroelectric Project	Industrias Contempo S.A. de C.V.	Renewable energy	21 years	2013	1 Jan 2014 – 31 Dec 2020. Renewable. Changed from: 1 Jan 2013 – 31 Dec 2019 Verification report up to 2020 (waiting for issuance 158,507 t CO <sub>2</sub> )	24 746	519 666		2034

#	Registration date	Project name	Sponsor	Sector	Crediting period	Starting date	Verification	t CO <sub>2</sub> /year	Total CO <sub>2</sub> /project	Annex 1	Project life under CDM project
15	April 2016	Los Laureles Hydroelectric Project	Generación Renovable y Ambiental S.A. de C.V.	Renewable energy	21 years	2016	1 Sep 2016 – 31 Aug 2023 Renewable. No issuance requested until now	20 188	423 948		2037
16	April 2012 (PDD modification 2016)	Cerro de Hula Wind Project	Globeleq Mesoamerica Energy (today part of CMI of Guatemala)	Renewable energy	10 years	2012	24 Apr 2012 – 23 Apr 2022. Fixed. Verification report up to 2015	226 978	2 269 780	United Kingdom of Great Britain and Northern Ireland	2022
17	December 2012	Platanares Geothermal Project	Geotérmica Platanares, S.A. de C.V.	Renewable energy	10 years	2015	1 Jun 2015 – 31 May 2025. Fixed. No issuance requested until now	143 748	1 437 480		2025
18	June 2007	Tres Valles Cogeneration Project (bagasse)	Compañía Azucarera Tres Valles, S.A. de C.V.	Renewable energy	21 years	2004	1 Jan 2004 – 31 Dec 2010 Was renewable, but now expired; renewal no longer possible. Verification report up to 2010 (waiting for issuance)	16 479	346 059	Japan	2025

#	Registration date	Project name	Sponsor	Sector	Crediting period	Starting date	Verification	t CO <sub>2</sub> /year	Total CO <sub>2</sub> /project	Annex 1	Project life under CDM project
19	3December 2007	Inversiones Hondureñas Cogeneration Project (bagasse)	Inversiones Hondureñas, S.A. de C.V.	Renewable energy	21 years	2004	1 Jan 2004 – 31 Dec 2010. Was renewable, but now expired; renewal no longer possible. Verification report up to 2010 (waiting for issuance)	19 937	418 677		2025
20	December 2012	Enersa Cogeneration Project	Energía Renovable S.A. de C.V.	Cogeneration	10 years	2013	1 Jan 2013 – 31 Dec 2022. Fixed. No issuance requested until now	53 561	535 610	Netherlands	2023
21	December 2012	Gasification Project ARIDEMA (biomass)	Cogeneración R4E Talanga S.A. de C.V.	Renewable energy	10 years	2014	1 Jan 2014 – 31 Dec 2023. Fixed. No issuance requested until now	8 477	84 770	Switzerland United Kingdom	2024
22	September 2006	EECOPALSA – biogas recovery and electricity generation from Palm Oil Mill Effluent ponds, Honduras	Energía Ecológica de Palcasa, S.A.	Renewable energy	2*7 years	2006	14 Nov 2013 – 1 Sep 2020. Other crediting period(s): 2 Sep 2006 – 1 Sep 2013	27 615	386 610	Switzerland	2020
23	August 2007	Cervecería Hondureña Methane Capture Project	Cervecería Hondureña S.A. de C.V.	Cervecería Hondureña Methane Capture Project	21 years	2002	1 Apr 2010 – 31 Mar 2017. Other crediting period(s): 1 Apr 2003 – 31 Mar 2010	7 302	153 342		2023
24	March 2008 (PDD modification 2012)	Energeticos Jaremar – Biogas recovery from palm oil mill effluent ponds, and	Energeticos Jaremar, S.A. de C.V.	Renewable energy	21 years	2008	8 Mar 2008 – 7 Mar 2015. Was renewable, but now expired; renewal no longer	30 646	643 566	United Kingdom of Great Britain and Northern Ireland	2029



#	Registration date	Project name	Sponsor	Sector	Crediting period	Starting date	Verification	t CO <sub>2</sub> /year	Total CO <sub>2</sub> /project	Annex 1	Project life under CDM project
25	March 2009	EECOPALSA Biomass Project	EECOPALSA	Renewable energy	21 years	2008	possible. Verification report up to 2012 25 Mar 2009 – 24 Mar 2016. Was renewable, but now expired; renewal no longer possible.	14 088	295 848		2029
26	February 2010	Energia Limpia Jaremar renewable thermal generation from biomass Gasification of palm empty fruit bunch - Honduras project	Energía Limpia Jaremar S.A. de C.V.	Renewable energy	21 years	2009	Verification report up to 2012 1 Jun 2010 – 31 May 2017. Was renewable, but now expired. Changed from: 20 Feb 2010 – 19 Feb 2017. Renewal no longer possible. Awaiting issuance request (2011)	18 856	395 976	Sweden	2030
27	February 2011	Aguan biogas recovery from palm oil mill effluent ponds and biogas utilization - Exportadora del Atlántico, Aguan/Honduras	Exportadora del Atlántico	Renewable energy	21 years	2011	1 Feb 2011 – 31 Jan 2018. Was renewable, but now expired; renewal no longer possible. No issuance requested	30 183	633 843	United Kingdom of Great Britain and Northern Ireland	2032
28	August 2011	EECOPALSA Biogas Expansion – Honduras project	EECOPALSA	Renewable energy	21 years	2011	10 Aug 2011 – 9 Aug 2018. Was renewable, but now expired; renewal no longer possible. Verification report up to 2012	13 693	287 553	Belgium France	2032

#	Registration date	Project name	Sponsor	Sector	Crediting period	Starting date	Verification	t CO <sub>2</sub> /year	Total CO <sub>2</sub> /project	Annex 1	Project life under CDM project
29	March 2012	Biogas y Energía - Methane recovery & power generation from oil mill plant effluents	Biogas y Energía S.A.	Renewable energy	21 years	2012	6 Mar 2012 – 5 Mar 2019. Was renewable, now expired; renewal no longer possible	49 068	1 030 428		2033
30	December 2012	Energía Renovable Hondupalma – Biogas recovery, heat and electricity generation from effluents ponds in Honduras	Central de Empresas de Generación de Energía Renovable Hondupalma	Renewable energy	21 years	2012	31 Dec 2012 – 30 Dec 2019. Was renewable, now expired; renewal no longer possible	34 412	722 652		2033
									<b>16 746 655</b>		

Source: Author's elaboration based on data from UNFCCC.

### *Conclusions*

139. It is clear that Honduras has broad experience in emission reduction projects and carbon credit trading. It is interesting to note that CDM projects' activities have been implemented. The sale of carbon credits has been present in the cash flow in the early years of the CDM projects' lives; however, since 2012, no request has been placed for crediting period renewal for most projects with a 21-year lifespan. As a result, it can be assumed that, since 2012, the projects' cash flows have not accounted for any inflows from the sale of carbon credits. Although the projects' activities were implemented and many of those projects are still operational, it does not follow that they are able to keep issuing carbon credits to input into their cash flow again. It should be noted that a CDM project must comply with a monitoring plan, which must undergo an auditing process, and eventually apply to the CDM Executive Board for the issuance of certified emission reductions. For example, if the monitoring plan involves the calibration of equipment to prove the veracity of the emission reductions, such calibration cannot be retroactive; instead, the plan recommended by the equipment maker must be followed. Therefore, if this requirement is not met, it is possible that many emission reductions of CDM projects no longer qualify for the relevant certifications. Additionally, the lack of a stable (in time and in price) carbon market discourages the maintenance of relevant monitoring plans' operationality. It is recommended that an independent analysis be carried out on the role of the carbon market as a financing mechanism for the implementation of the climate change mitigation projects for NDC compliance. Also, it is important to remember that the NDC does not recognize emission reduction projects whose certified emission reductions are traded outside the geographic territory of the country. Further on in this paper, initial recommendations are included on the role that the carbon market may play in fund mobilization considering two relevant NDC sectors: REDD+ projects and energy projects.

## **F. Honduras' country risk**

140. There are certain country risks that shall have to be considered and analysed when defining Honduras' climate finance strategy. The major challenge posed when considering climate finance is knowing in detail the availability of long-term funds, as well as the commercial terms required to access them. Along the process of defining the commercial financing terms it will be crucial to determine how the country risk will be analysed from the business perception risk standpoint for business activities to be developed in the context of Honduras' climate risk.

141. A further issue to consider will be the associated risks of implementing entities as well as recommendations from international organizations.

142. This section aims to raise these issues and presents basic information to be considered in future public-private dialogue to be held as part of the NDC investment plan building and financing definition phase.

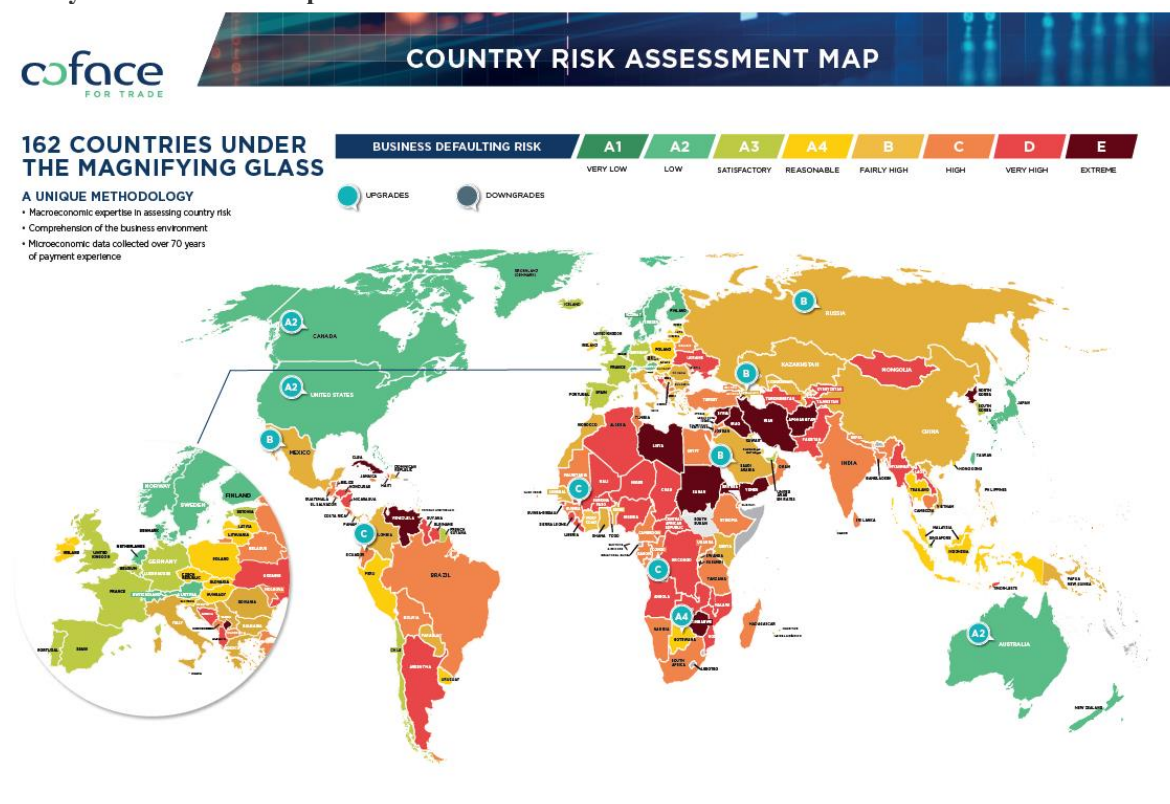
### **1. Macroeconomic and business perception risks**

143. Macroeconomic and country-risk indicators are key points for international fund mobilization both for the public and the private sectors, as a country perceived as high risk will be subject to more restrictive conditions for long-term financing or will require further robust collateral on the acquired debt's repayment.

144. A summary prepared by Coface<sup>16</sup> on country risk perception for February 2021 is presented in figure 3 below. Coface provides a point of reference for credit insurance and risk management, with over 75 years of experience in the industry and a team of 4,300 experts serving around 50,000 companies.

145. The map in figure 3 shows Honduras' position in terms of country risk assessment.

Figure 3  
Country risk assessment map



Source: Coface.

146. According to Coface, Honduras' credit risk rating is as follows:

- (a) Country risk assessment D;
- (b) Business default risk very high;
- (c) Business climate C.

147. Tables 14–15 present Honduras' main economic indicators, strengths and weaknesses.

<sup>16</sup> See <https://www.coface.com/Economic-Studies-and-Country-Risks/Honduras>.

Table 14  
Major macroeconomic indicators for Honduras

Major macroeconomic indicators	2018	2019	2020 estimate	2021 forecast
GDP growth (%)	3.7	2.7	-8.5	3.5
Inflation (yearly average, %)	4.8	4.1	3.0	3.5
Budget balance (% GDP)	-0.9	-0.9	-5.0	-3.8
Current account balance (% GDP)	-4.2	-4.2	-0.5	-3.0
Public debt (% GDP) (including all non-finance public sector)	42.2	43.1	52.9	53.7

Source: Coface.

Table 15  
Economic strengths and weaknesses of Honduras

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Privileged relations with the United States (preferential trade agreements)</li> <li>• Agricultural, mining and tourism resources</li> <li>• Under IMF assistance programme until 2021</li> </ul>	<ul style="list-style-type: none"> <li>• Dependent on the United States economy (exports, FDI and expatriate remittances)</li> <li>• Dependent on imported fuels and cereals (maize is the staple food)</li> <li>• High levels of crime and corruption amid poverty and drug trafficking</li> <li>• Large informal economy: 70% of the working population</li> <li>• Weak fiscal resources</li> </ul>

Source: Coface.

## 2. Risk assessment

### *A rebound limited by weather conditions*

148. Household consumption, the main driver of domestic demand (80% of GDP in 2019), will be hurt by the population displacement following the two storms in November 2020, as well as by the rise in unemployment both within the country (12% at the end of 2020) and among expatriates in the United States. Standing at 10.3% in October 2020, the unemployment rate among the United States Latino population is expected to decline more slowly than in other groups, reflecting Latinos' overrepresentation in the jobs hardest hit by the crisis. The catch-up effect observed on remittance flows in the second half of 2020 should fade away. Expatriate remittances, which accounted for 21.5% of GDP in 2019, should therefore be less dynamic than before the crisis, limiting the growth of one of the main financial windfalls for Honduran households. Public demand is expected to increase as part of the plan to support the economy and the reconstruction programme following the two storms of November 2020. External demand will be constrained by the recovery of demand in the United States, the main destination for the free zones' manufacturing industry. In this context, the central bank is expected to continue with an accommodative monetary policy, with inflation at the bottom end of its target window (4% +/- 1%). The policy rate is expected to be held at 30% following the last cut at the end of 2020.

149. On the supply side, construction is expected to benefit from the reconstruction work on infrastructure destroyed by the storms. Restaurant and hotel services, on the other hand, will remain impacted for a prolonged period in a country where tourism is struggling to develop. The manufacturing industry will be driven mainly by the production of protective medical equipment, which is still

in high demand worldwide. Conversely, textile production will remain hamstrung by weak growth in global consumption. Agricultural production, which accounted for 15% of GDP in 2019, is set to suffer from the bad weather conditions at the end of 2020, which destroyed part of the agricultural land as well as the roads used to transport goods from the main coffee-growing areas.

*Public and current account deficits are largely financed by multilateral organizations*

150. Public accounts deteriorated as the pandemic pushed up spending and narrowed the tax base. Support measures include tax breaks for businesses maintaining employment at pre-epidemic levels and for those that had to close because of the government's health measures. In 2021, revenues are expected to remain below pre-crisis levels as the economy continues to recover, preventing the government from meeting the 1% deficit target that is included in the Fiscal Responsibility Law and one of the key points of the Credit Facility signed in 2019 with the IMF. As a result, the country's debt is expected to continue to increase, although remaining moderate compared to other countries in the region, with debt service swelling (25% of the central government's budget for 2021). Financing is largely provided by international lenders. The WB, the IDB and the CABI have provided nearly USD 400 million in total loans. The IMF provided an emergency loan of USD 143 million in addition to a USD 311 million extension of the Credit Facility of which USD 88 million dedicated to reconstruction work since the end of 2020. However, financing needs also required the issuance of USD 600 million of 10-year bonds on the international markets in May 2020.

151. The economic rebound is expected to result in a deepening of the current account deficit, which was reduced in 2020 by the downturn in domestic demand. Imports will be driven by the revival of manufacturing production, reconstruction works and household consumption, while exports will expand at a sluggish pace, pulled down by lacklustre textile and capital goods sales in the United States, and despite a vibrant performance by agricultural exports (coffee, sugar, pineapple). The balance of services will also remain in deficit as the tourism sector struggles. Weaker expatriate remittances will mean that the current account will not return to balance. Sagging FDI will only partially meet the financing requirement, with the remainder covered by loans from multilateral donors. Reserves should remain at a comfortable level, equivalent to five months of imports, making it possible to maintain the lempira.

*A high-stakes election year*

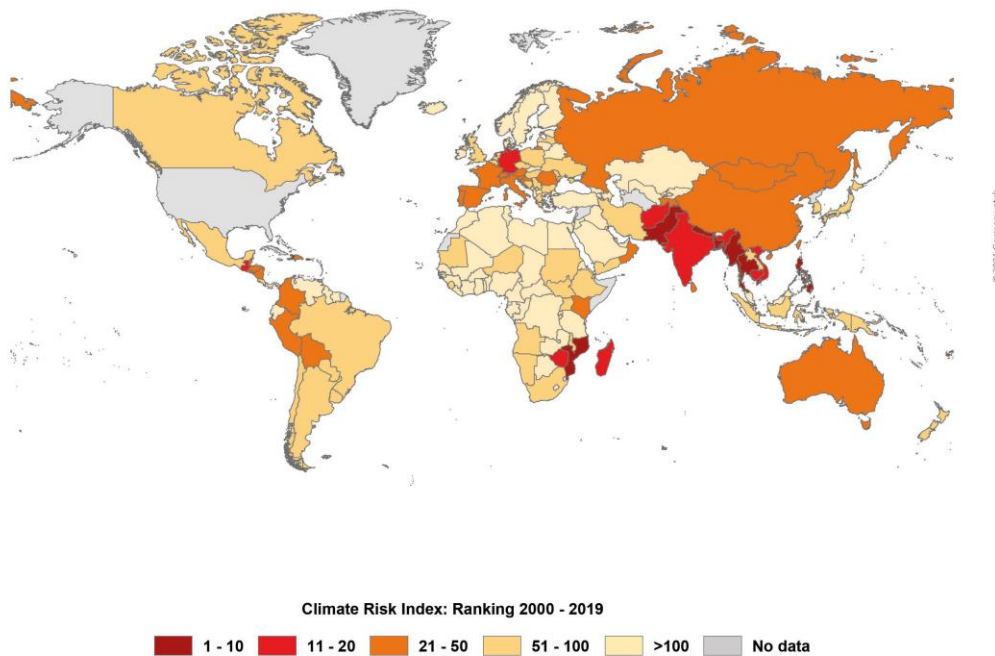
152. Following the deeply controversial presidential elections of 2017, the November 2021 elections are a high-stakes case. Calls for calm and consultation have already been heard from the private sector, which fears unrest that could slow economic recovery. The lack of agreement among the parties in Congress to reform the electoral code ahead of the elections points to high tensions ahead. Economic recovery, health, education and security in a country plagued by drug trafficking will be the top issues during the campaign. Internationally, migration will be the central theme in exchanges with the United States. The repatriation of migrants who transit through the country on their way to the United States is continuing following the disputed agreement signed in September 2019 with the Trump administration.

*Climate risk*

153. It is important to understand and include Honduras’ position in relation to climate risk when defining NDC-related climate finance lines. A country risk analysis is therefore relevant not only from the macroeconomic and political perspectives, but also from Honduras’ highly vulnerable situation in relation to climate change, which is expected to continue affecting economic development and widening the poverty gap.

154. The map in figure 4 shows Honduras’ climate risk index.

Figure 4  
World map of the Global Climate Risk Index 2000–2019



Source: Germanwatch and Munich Re NatCatSERVICE.

*Implementing entities’ risk*

155. When defining the NDC investment plan, associated risks of implementing entities and recommendations by international organizations must also be taken into account.

156. The ENEE case is a good example for analysing this variable. As explained above, ENEE is the implementing entity of public energy investment projects and will likely continue to play a leading role within the NDC investment plan both in the definition of projects and as an implementing entity. However, when assessing the projects submitted by the energy sector for NDC compliance, SEFIN will have to consider the financing modality and the implementing entity. If the proposed implementing entity is ENEE, SEFIN will have to bear in mind for such analysis

its commitments pledged with the IMF<sup>17</sup> in relation to the financing operation and management of ENEE. If ENEE is chosen as one of the main executing entities in the future climate finance strategy, discussions held between SEFIN and ENEE will have a direct impact on the NDC-related projects. The NDC investment plan, especially the public investment portion, and its financing strategy cannot ignore the commitments already pledged by the country to international organizations in relation to implementing entities, and must be harmonized with them.

## V. Catalysing capital towards green, low-emission and climate-resilient development

157. In its publication *Catalysing Climate Finance: A Guidebook on Policy and Financing Options to Support Green, Low-Emission and Climate-Resilient Development*, UNDP collects experience and information to support climate change adaptation and mitigation projects in some 140 countries. It provides useful guidance to help decision makers in the preparation of green, low-emission and climate-resilient development strategies. For the purpose of this document, the following topics will be explored.

### A. Climate investment policy framework

158. A basic but important principle behind climate investment promotion is that climate investment policies must tackle all the factors that financiers assess when considering an investment opportunity. Any activities used to promote climate finance should be embedded within the broader investment framework.

159. Favourable climate investment policies cannot substitute an overall positive investment environment. Before making a climate investment, financiers will assess a number of project-specific risks (resources, technology, skills, energy intermediaries, operations and management, etc.) and non-project-specific risks (country risks, size of the economy, macroeconomic conditions, investment policies, currency risk, tax rates, proximity to markets, technology, supporting and delivery infrastructure, etc.). A comprehensive strategy to attract investment would seek to enhance capacity in all of those areas.

160. The objective of climate investment policies is to create conditions for attractive investment risk/reward profiles, adapted to different types of investors, either through reducing risks (stable policy context, guarantee instruments, etc.) or increasing rewards (premium prices, tax credits, etc.).

161. The main categories of climate policy options are covered below.

#### 1. Capacity and information-based instruments

162. In a number of sectors — such as buildings, transport and agriculture — low-emission climate-resilient technology adoption relies on consumption and investment decisions made by millions of scattered consumers and business owners. This means that they all have to be reached, informed and convinced of the benefits of a given climate investment before significant changes can occur.

163. To be effective, climate policy measures not only require that consumers and investors are well informed on the meaning and implementation modalities of

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<sup>17</sup> See <https://www.imf.org/en/News/Articles/2021/09/13/pr21262-honduras-imf-execboard-completes-4threv-under-imfs-sba-and-arrange-under-sbc-facility> and IMF Country Report No. 21/207



those measures, but that solutions fostered by those measures are actually available, and that local professionals involved in the implementation of those measures have the appropriate skills.

164. Information and capacity development instruments are aimed at developing the general population's awareness and support for technologies through addressing existing knowledge, skills and perception barriers, as well as enhancing the technical skills required by sector professionals to evaluate, market, install and operate clean technologies.

## **2. Regulatory instruments**

165. Rules and regulations are used to specify how something should be done, monitor to check that the rules are followed, and enforce rules with penalties when they are not followed. Regulation can take many forms, including standards, bans, licences, zoning laws, and property and access rights. Regulations mandating results – such as energy building codes for buildings, energy performance requirements for electric appliances and vehicle fuel economy standards or renewable portfolio standards – can have a widely felt impact if they are properly designed and enforced.

## **3. Market-based instruments**

166. Market-based instruments use price or other economic variables to provide incentives for polluters to reduce harmful emissions. They seek to address the market failure of negative environmental externalities either by incorporating the external cost of production or consumption activities through taxes or charges on processes or products, or by facilitating the establishment of a market for the use of environmental services. Market-based instruments are:

- (a) Fiscal incentives (including direct subsidies);
- (b) Early market development instruments;
- (c) Debt-based and equity-based instruments;
- (d) Trading instruments.

167. Table 16 lists examples of the most widespread policy instruments that apply to the categories mentioned above.

Table 16

**Examples of policy instruments to catalyse green, low-emission and climate-resilient investment**

<i>Policy instruments</i>	<i>Research and development</i>	<i>Proof of concept and scale-up</i>	<i>Commercial roll-out</i>	<i>Diffusion and maturity</i>
Capacity- and information-based instruments	<ul style="list-style-type: none"> <li>• Schemes to improve data collection and climate forecasting capacity</li> <li>• Reliable information on ecosystem impact scenarios, including threatened species</li> </ul>			<ul style="list-style-type: none"> <li>• Green accounting</li> <li>• Institutionalized consumer/producer/community/policy-decision-maker awareness campaigns</li> <li>• Citizen monitoring and reporting schemes</li> <li>• Voluntary labels and certification schemes</li> <li>• Worker/farmer/professional retraining schemes</li> <li>• Carbon, water, biodiversity and other ecosystem services risk disclosure</li> <li>• Ecological footprint assessments</li> <li>• Energy audits/smart meters</li> <li>• National/local regulations and incentives databases</li> <li>• Monitoring and reporting of subsidies</li> <li>• Public investment and expenditure reviews</li> <li>• Public registry of global environment goals and obligations</li> </ul>
Regulatory instruments	<ul style="list-style-type: none"> <li>• Regulatory requirements to incorporate climate risk information into policy planning and public investment plans (e.g. national irrigation policy)</li> <li>• Protection of innovation (copyright/patents)</li> <li>• Redesigning of intellectual property rights</li> <li>• Payments for access to biodiversity research permits</li> <li>• Bioprospecting rights</li> </ul>	<ul style="list-style-type: none"> <li>• Mandatory energy insurance programmes</li> <li>• Hazard insurance programmes to cover risks from adverse events and floods on investments in coastal areas</li> </ul>	<ul style="list-style-type: none"> <li>• Streamlined/accelerated permitting</li> <li>• Contractor licensing</li> <li>• Equipment certification</li> <li>• Interconnection policy</li> <li>• Line extension policy</li> <li>• Renewable energy access law</li> </ul>	<ul style="list-style-type: none"> <li>• Best available technology requirements</li> <li>• Standards and mandatory labelling</li> <li>• Utility regulations (e.g. renewable portfolio standards)</li> <li>• Building codes</li> <li>• Priority sector lending regulations</li> <li>• Land zoning to protect climate-sensitive ecosystem services and public goods</li> <li>• Property laws and asset rights</li> <li>• Regional planning and water allocation</li> <li>• Climate-resilient and low-carbon infrastructure standards</li> <li>• Removal of trade barriers to climate technologies</li> <li>• Establishment of environment rights</li> <li>• Compliance standards aligned with water allocation plans</li> <li>• Water storage regulations</li> <li>• Development of conflict resolution mechanisms (e.g. catchment forum resolving water-use conflicts)</li> <li>• Modification of protected area network planning and coverage to include climate risks considerations (e.g. implementation of strategic environmental zoning plan)</li> <li>• Integration of criteria related to adaptation to global change into the regular grant-making activities of government authorities</li> </ul>

<i>Policy instruments</i>	<i>Research and development</i>	<i>Proof of concept and scale-up</i>	<i>Commercial roll-out</i>	<i>Diffusion and maturity</i>
Fiscal mechanisms	<ul style="list-style-type: none"> <li>• Capital gains tax waivers</li> <li>• Research and development tax credits</li> </ul>	<ul style="list-style-type: none"> <li>• Tax-free development zones</li> </ul>	<ul style="list-style-type: none"> <li>• Accelerated depreciation</li> <li>• Investment tax credits</li> <li>• Production tax credits</li> <li>• Modified accelerated cost recovery system</li> </ul>	<ul style="list-style-type: none"> <li>• Requirements to avoid, reduce, mitigate and offset impacts on ecosystems through Environmental Impact Assessment legislation, endangered species legislation</li> <li>• Renewable transport fuel obligations</li> <li>• Mandatory emission caps and air quality directives</li> <li>• Trade reforms to support agricultural specialization and virtual water trading</li> <li>• Phase-out of fossil fuel subsidies</li> <li>• Carbon tax</li> <li>• Water pricing reforms to encourage improved irrigation methods and water techniques</li> <li>• Energy emissions taxes</li> <li>• Public benefit charges (e.g. utility customer charges)</li> <li>• Environmental levies on old cars, old refrigerators, polyethylene bags, etc.</li> <li>• Fishery user levy</li> <li>• Ecological fiscal transfers</li> <li>• Phase-out of perverse irrigation/agricultural encroachment subsidies</li> <li>• Phase-out of insurance subsidies for settlement in disaster-prone areas</li> <li>• Waste disposal fees</li> <li>• Water consumption fees</li> <li>• Municipal rates rebates for creating conservation set-asides</li> <li>• Clean energy production tax breaks</li> <li>• Income tax deductions for avoiding economic production practices that undermine ecosystem resilience</li> </ul>
Early market development mechanisms	<ul style="list-style-type: none"> <li>• Research and development grants (e.g. to develop climate resistant varieties)</li> <li>• Inducement prizes for innovation</li> </ul>	<ul style="list-style-type: none"> <li>• National/state/local procurement</li> <li>• Advanced market commitment</li> <li>• Green power purchasing</li> </ul>	<ul style="list-style-type: none"> <li>• Reverse auctions/requests for contract</li> <li>• Renewable portfolio standard/Green Certificates</li> <li>• Renewable fuel standards</li> <li>• Feed-in tariffs</li> <li>• Production subsidies</li> <li>• Insurance/financial incentives to promote agricultural and non-</li> </ul>	<ul style="list-style-type: none"> <li>• Project development grants</li> <li>• Net metering</li> <li>• Restructuring aid for industries</li> <li>• Negotiated and voluntary industry/investment agreements</li> <li>• Rural microfinance facility for climate-resilient practices</li> <li>• Crop certification</li> <li>• Seed grants (e.g. diffusion of drought-adapted crop varieties to vulnerable communities)</li> </ul>

<i>Policy instruments</i>	<i>Research and development</i>	<i>Proof of concept and scale-up</i>	<i>Commercial roll-out</i>	<i>Diffusion and maturity</i>
Debt and equity finance mechanisms	<ul style="list-style-type: none"> <li>• Incubators</li> <li>• National laboratories</li> <li>• Prizes</li> <li>• National/state-funded venture capital</li> <li>• National/state-run venture capital</li> </ul>	<ul style="list-style-type: none"> <li>• Project grants</li> <li>• Venture loan guarantees</li> <li>• Mezzanine/subordinated debt funds</li> </ul>	agricultural diversification <ul style="list-style-type: none"> <li>• Public–private emerging technology funds</li> <li>• Green bonds</li> <li>• Loan softening/loan guarantees</li> <li>• Senior debt funds</li> <li>• Technology insurance packages</li> </ul>	<ul style="list-style-type: none"> <li>• Technology transfer funds</li> <li>• National/state/local infrastructure funds</li> <li>• ‘First loss’ public equity position in public equity funds</li> <li>• Export trade credit</li> <li>• Microfinance</li> <li>• Sovereign/policy risk insurance</li> <li>• National/state/local energy service company funds</li> <li>• Agricultural insurance</li> <li>• Weather indices</li> <li>• Catastrophe bonds</li> </ul>
Environmental market trading mechanisms				<ul style="list-style-type: none"> <li>• Domestic compliance and voluntary carbon cap and trade markets</li> <li>• Project-based carbon credits</li> <li>• National and multilateral carbon funds</li> <li>• Payment for ecosystems-based services</li> <li>• Conservation easements (payments for biodiversity-conserving management practices)</li> <li>• Payments for biodiversity-conserving business (organic/green markets etc.)</li> <li>• Water trading (nutrient and salinity trading)</li> <li>• Fishing quotas</li> <li>• Tradable wetland mitigation credits</li> <li>• Habitat banking: tradable development rights</li> <li>• Voluntary biodiversity offsets</li> <li>• Tradable biodiversity credits</li> </ul>

#### 4. Climate policy evaluation criteria

168. Policymaking is a balancing and negotiation exercise where policymakers must balance environmental objectives against other political pressures and manage trade-offs and distributional effects among stakeholders. As international capital is highly mobile, investors will favour the sectors or locations that provide the best risk/reward profiles. Short-term and overly complex public policies with limited effects on the profitability of investment projects are unlikely to attract additional private financial flows. On the other hand, overly generous tax credits and regulatory incentives in the form of exemptions from environmental or labour laws will create economic distortions and harmful distributional effects.

169. To facilitate the review and evaluation of public policies to catalyse capital towards green, low-emission and climate-resilient development, the UNDP Guidebook proposes a policy analysis framework based on eight criteria. The first four criteria reflect the views expressed by the business community; the final four criteria focus on policy effectiveness from the taxpayer’s perspective. These are outlined in table 17.

Table 17  
Public policies to catalyse capital towards green, low-emission and climate-resilient development

<i>Business perspective</i>	<i>Taxpayer perspective</i>
Loud: Policy effect on risk/reward profile	Environmental effectiveness: Environmental gains delivered per unit of resources
Long: Policy stability and longevity	Cost effectiveness: Comparative costs of different policy mixes
Legal: Credible means of enforcement	Political feasibility (including distributional effects): Political implementation costs
Light: Policy clarity and simplicity	Institutional effectiveness: Capacity to implement different mixes of policies

*Source: UNDP.2011. Catalysing Climate Finance: A Guidebook on Policy and Financing Options to Support Green, Low-Emission and Climate-Resilient Development.*

#### 5. Institutional effectiveness

170. Some policy instruments are likely to take considerable amounts of time and effort to develop in countries that do not already have the resources and systems in place. For example, the major barrier to the creation of new carbon taxes or the shifting of traditional fossil fuel tax breaks onto clean energy substitutes may be the stage of development of a country’s tax infrastructure. Indeed, the most significant issue facing many lower-income economies is a low tax base. In order to make many policy measures possible, supporting actions may be needed to ensure sufficient enabling conditions in the institutional and political environment. Different countries, for example, have a different range of capacities to implement policies and national circumstances can influence the general resilience of an economy to cope with change.

171. Table 18 summarizes the main evaluation attributes of main categories of policies mentioned in this section.

Table 18  
Policy effectiveness criteria

<i>Policy instruments</i>	<i>From an investor's perspective</i>				<i>From a taxpayer's perspective</i>			
	<i>Loud</i>	<i>Long</i>	<i>Legal</i>	<i>Light</i>	<i>Environmental effectiveness</i>	<i>Cost effectiveness</i>	<i>Political feasibility</i>	<i>Institutional effectiveness</i>
Capacity development and information-based instruments	Depend on existing capacity and information gaps	Depend on needs and consistent funding	Limited requirements	Depend on how consumers use the information; most effective in combination with other policies	Depend on how consumers use the information; most effective in combination with other policies	Potentially low cost, but depends on programme design	Depend on cooperation from special interest groups	Depend on research and dissemination capacity as well as long-term funding
Regulations and standards	Depend on regulation design and enforcement capacity	Usually long-term and certain	Legal by nature	Depend on design but can be straightforward	Emission level set directly, though subject to exceptions. Depend on deferrals and compliance	Depend on design; uniform application often leads to higher overall compliance costs	Depend on regulatory enforcement capacity. Subject to 'regulatory capture' and to corruption 'licensing business'	Depend on technical capacity; popular with regulators in countries with weakly functioning markets and strong enforcement capacity
Fiscal instruments	Depend on level set and enforcement capacity	Less certain than regulations/standards	Depend on independence and capacity of legal system but tend by nature to be amenable to legal redress	Depend on programme design but can be relatively simple to understand and explain	Depend on ability to set tax at a level that induces behavioural change	Can be cost neutral; the overall tax burden can be kept unchanged by lowering traditional taxes at the same time that new, green taxes	Often politically unpopular; careful policy implementation is needed to offset undesired secondary impacts; compensatory policies may be necessary to overcome opposition	Because of political sensitivity and need for compensatory measures, may be difficult to enforce with underdeveloped institutions

<i>Policy instruments</i>	<i>From an investor's perspective</i>				<i>From a taxpayer's perspective</i>			
	<i>Loud</i>	<i>Long</i>	<i>Legal</i>	<i>Light</i>	<i>Environmental effectiveness</i>	<i>Cost effectiveness</i>	<i>Political feasibility</i>	<i>Institutional effectiveness</i>
Early market development instruments	Depend on level and consistent funding	Depend on programme design; less certain than regulations/standards	Based on contractual arrangement subject to legal recourse	Depend on design, but can be kept straightforward	Depend on programme design, including clear targets, a baseline scenario, third-party involvement in design and review and monitoring provisions	Depend on flexibility and extent of government incentives, rewards and penalties. Can be cost neutral if savings from phasing out some 'bad' incentives can be reinvested to support good incentives	Popular with recipients; potential resistance from vested interests. Can be difficult to phase out	Administrative and technical demands of premium, procurement and direct grant monitoring can be high, and require significant number of administrative staff
Debt- and equity-based instruments	Depend on programme design and the degree of risk	Generally limited in time and purpose (investment-specific)	Based on contractual arrangements subject to legal recourse	Tend to be complex due to need to define precisely risk apportionment	Depend on eligibility criteria and market status	Depend on level and programme design; can be market distorting	Popular with recipients; can be difficult to phase out	Tend to be complex to administer and require qualified administrative staff
Trading instruments	Depending on project design, effect on profitability of underlying projects cannot	Depend on political willingness to take on long-term abatement commitments	Based on contractual arrangements by specific legislation for credit ownerships	Tend to be complex due to auditing requirements and tendency to rig the game	Depend on project design; concerns about additionality raised about project-based carbon schemes	Can be very cost-effective where the cost of traditional policy tools is prohibitive	Potential resistance from vested interests. Allocation of emission rights can be politically sensitive	Administrative and technical demands to establish and monitor can be high, and require significant number of

<i>Policy instruments</i>	<i>From an investor's perspective</i>				<i>From a taxpayer's perspective</i>			
	<i>Loud</i>	<i>Long</i>	<i>Legal</i>	<i>Light</i>	<i>Environmental effectiveness</i>	<i>Cost effectiveness</i>	<i>Political feasibility</i>	<i>Institutional effectiveness</i>
	always be accurately anticipated and used as collateral to secure loans					to government or society in general		administrative staff



## 6. Optimal policy mix

172. The optimal policy mix for the promotion of climate investment will not be the same everywhere: industrial, emerging and developing countries have different resources, challenges and priorities. Different country and clean technology market characteristics mean that there is no one-size-fits-all best policy approach.

173. In some cases, governments might need to enlarge (or scale down) their administrative and technical capacity as a prerequisite for the implementation of policies that promote low-emission, climate-resilient markets. In others, information-based and regulatory instruments will need to be implemented (or refined) before market-based instruments can be considered. It might also happen that some existing policies (harmful subsidies, exemptions from environmental and labour laws, etc.) will have to be removed (or re-adjusted) before investment-support policies for clean technologies can be effectively implemented.

174. The selection of the most appropriate mix of public policies to catalyse climate investment for a given context will depend largely on the following conditions:

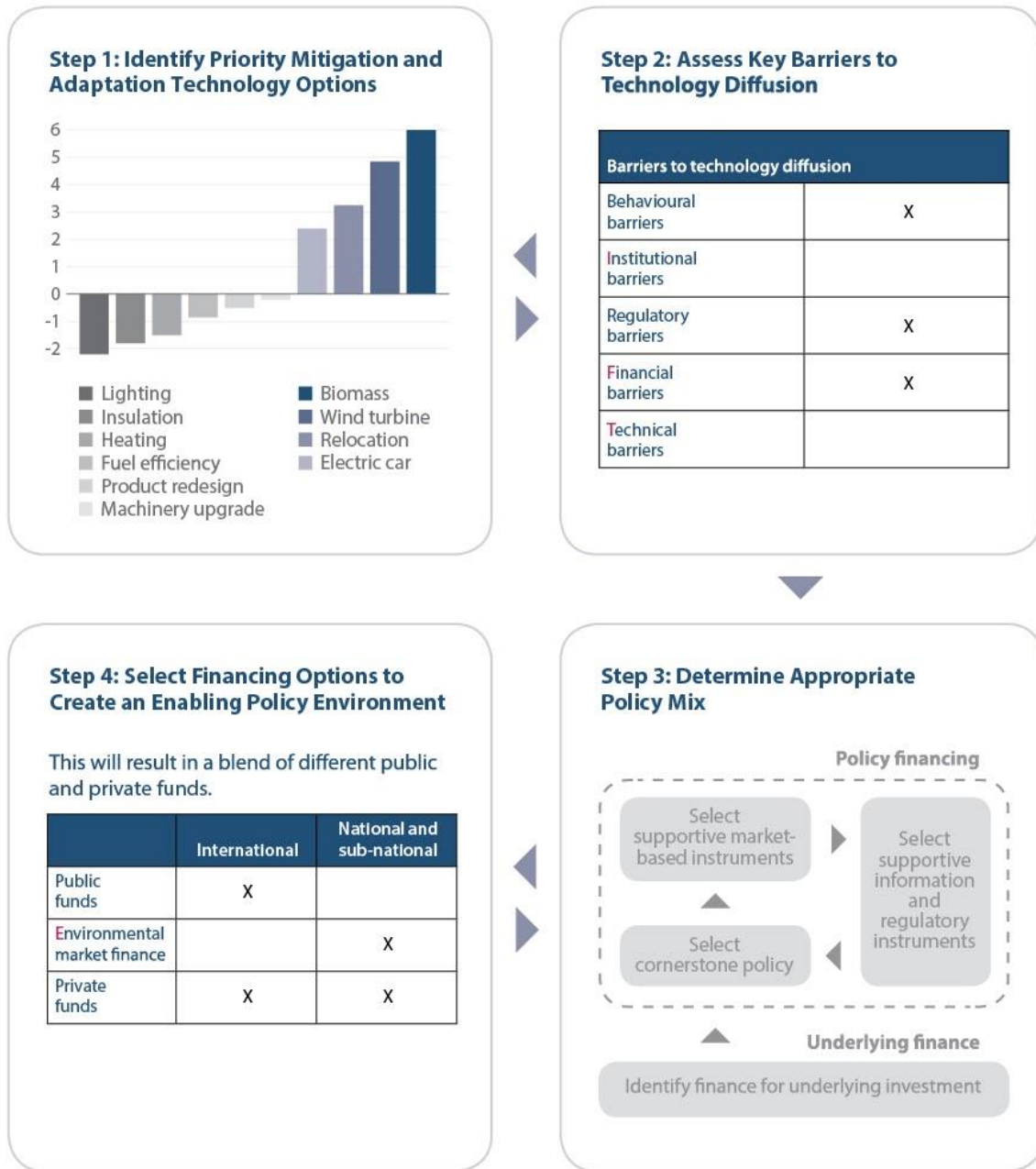
- (a) Level of maturity of the targeted technology;
- (b) Global market status;
- (c) Country conditions, including the macroeconomy, the existing policy framework, institutional structures and the maturity of the financial system;
- (d) Specific national barriers to the targeted technology.

175. Although a broad range of public interventions can be used to attract investment towards green, low-emission and climate-resilient development, only a very limited number of policy options are likely to apply to a targeted technology for a specific market in a given location. The following four-step approach may be helpful to identify an appropriate subset of suitable policy options:

- (a) Step 1: Identify priority mitigation and adaptation technology options;
- (b) Step 2: Assess key barriers to technology diffusion;
- (c) Step 3: Determine appropriate policy mix;
- (d) Step 4: Select financing options to create an enabling policy environment.

176. Policymakers may elect to develop an integrated green, low-emission and climate-resilient development strategy that follows this four-step approach, as illustrated in figure 54.

Figure 5  
**United Nations Development Programme framework to catalyse finance towards green, low-emission and climate-resilient development**



Source: UNDP. *Catalysing Climate Finance: A Guidebook on Policy and Financing Options to Support Green, Low-Emission and Climate-Resilient Development.*

## B. Financing sources and instruments

177. A myriad of intermediary players exist between the sources of investible capital and those who need capital to develop climate-friendly projects. This includes those who ‘own’ the financial assets (e.g. households), those who have a

fiduciary responsibility to invest the financial assets (e.g. commercial banks, pension trustees) and those who actually invest the assets (e.g. investment managers) for a fee. Alongside those three main groups are investment consultants, research analysts (sell-side research), brokerage firms and credit rating agencies, who contribute to the investment process. It is this complex constellation of financial actors that decides what does and does not get financed, as well as the cost of that financing.

### 1. Players

#### (a) Corporations

178. A business can finance climate investment projects either by using on-balance sheet financing, by borrowing funds from a bank in the form of a loan, or through equity capital from selling a stake in the business itself.

179. Banks focus on getting debts repaid and earning a return on the transaction. The main commercial bank financing options are:

(a) *Corporate lending*: Banks provide finance to companies to support everyday operations. An assessment is made of the company's financial strength and stability, and debt is priced accordingly. Banks place few restrictions on how the company can use the funds, provided certain general conditions are met;

(b) *Project finance or limited recourse finance*: Money is borrowed to fund a specific project; the amount of credit made available will be linked to the revenue the project will generate over a period of time, as this is the means to pay back the debt. This amount is then adjusted to reflect inherent risks, e.g. the production and sale of power. In the case of a problem with loan repayment, rather like a typical mortgage, the bank will establish first 'charge' or claim over the assets of a business. The first tranche of debt to get repaid from the project is usually called 'senior debt';

(c) *Mezzanine finance*: As its name implies, this type of lending sits between the top level of senior bank debt and the equity ownership of a project or company. Mezzanine loans take more risk than senior debt because regular repayments of the mezzanine loan are made after those for senior debt; however, the risk is less than equity ownership in the company. Mezzanine loans are usually of shorter duration and more expensive for borrowers, but pay a greater return to the lender (mezzanine debt may be provided by a bank or other financial institution). A green investment project may seek mezzanine finance if the amount of bank debt it can access is insufficient: the mezzanine loan may be a less expensive way of replacing some of the additional equity that would be needed in that situation, and therefore can improve the cost of overall finance (and thus the rate of return for owners);

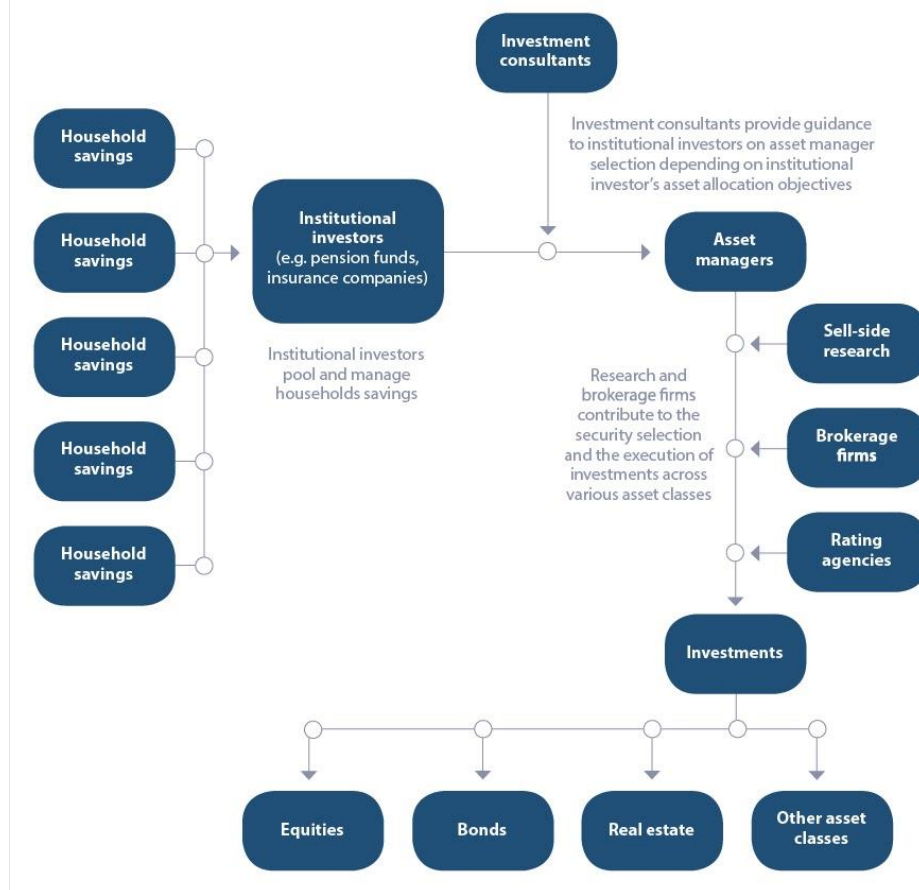
(d) *Refinancing*: This is where a project or a business has already borrowed money, but decides or needs to replace existing debt arrangements with new ones, similar to refinancing a mortgage. Reasons for refinancing include: more attractive terms becoming available in the market (perhaps as lenders become more familiar with the technology, meaning more money can be borrowed against the asset); or the duration of the loan facility, e.g. loans are often structured to become more expensive over time because of the increasing risk of changes to regulation or market conditions.

(b) Institutional investors

180. Institutional investors are of pivotal importance for green investment. They have a long-term investment horizon, which matches the long-term financing requirements of climate investment such as energy generation (wind power, solar power, hydroelectric power, geothermal, storage) or timber forestry. The term ‘institutional investors’ may be described as organizations that pool and manage the savings of small investors by investing on their behalf. They include pension funds, insurance companies, investment companies (e.g. mutual funds), endowments and foundations. Individual investors or retail investors on the other hand can be described as those who invest on their own behalf either directly or through financial intermediaries, such as investment advisers or financial planners. Investment management, also known as asset management or fund management, refers to the process whereby assets collected by institutional investors are actually invested in capital markets in the form of equities, bonds, commodities, real estate, etc., depending on the investors’ investment objectives. Figure 6 provides a simplified illustration of the various actors in the investment management process.

Figure  
Key players in the capital markets system

6



181. The primary objective of most institutional investors is to maximize risk-adjusted returns from their investments; however, due to their structural differences they have differentiated risk/return appetites that result in varying asset allocation strategies. In addition to the level of risk they are willing to accept, institutional investors also have operational and regulatory constraints that they need to take into account when making investment decisions. For instance, the nature of their

liabilities and the regulatory framework in which they operate are two of the major constraints faced by pension funds and life insurance companies.

**(c) Private cooperation finance (foundations and social investors)**

182. In recent years, an emerging group of social investors began to play an increasingly important role in climate change finance in developing countries. With more investors rejecting the notion that they face a binary choice between investing for maximum risk-adjusted returns or donating for social purpose, social investment is becoming a new funding source for socially responsible and environmentally sustainable investment. Social investors range from philanthropic foundations and commercial financial institutions to high net-worth individuals.

183. The willingness of some social investors to accept trade-offs (lower returns or higher risks) could facilitate the emergence of innovative PPPs to scale up climate investment to service low-income households in developing countries.

184. However, a great challenge for the emerging field of social investment, which seeks to apply lessons from venture capital to the field of development, is a severe shortage of investment propositions in which to invest. The capital available does not necessarily match the existing investment opportunities. Presently, the capacity of grass-roots organizations to promote themselves to investors as good investment propositions is weak.

185. International and national financial institutions, as well as central banks and regulators, are not always often familiar with the unique requirements of low-income households. Consequently, they find it difficult to develop appropriate financial products for these markets. On the other hand, existing ventures and grass-roots organizations seldom have the ability or sophistication to propose the kind of business plans and structures required to place them on the radar screen of either commercial or social investors. What seems to be missing is a market-development or market-transformation mechanism to bridge this gap.

**2. Vehicles**

186. Depending on their investment objective and risk appetite, investors have a number of options to choose from within each asset class to obtain exposure to climate change investments. Broadly speaking, these options fall into five areas: asset allocation strategies; public equity and equity products; publicly listed debt market (debt/bonds); real assets (including real estate and timber and sustainable forestry); and alternative investments.

187. ‘Alternative investments’ is a broad category of asset classes that include private equity, venture capital, hedge funds, infrastructure, commodities, carbon markets, etc.

**(a) Equity and equity products**

188. An equity share represents one unit of ownership in a company whose shares can be bought and sold on an exchange, such as the New York Stock Exchange or London Stock Exchange. An equity investor can profit in two ways: when the company’s equity increases in value or when the company passes a portion of its profits by paying dividends to its shareholders. Institutional investors can invest in climate change activities by purchasing the publicly traded equity shares of companies, established or newly listed, either in domestically- or internationally-listed equity markets. Investors can invest in listed equities by individually picking the shares of companies and/or investing in climate change

related investment funds. Even though worldwide there is an increasingly large number of equity funds targeting climate change investments, equity shares of companies in developing countries only make up a very small percentage of these investments.

189. Investors often look for well-developed financial markets and transparency in capital markets when making their investments; the majority of developing countries, apart from the leading emerging markets, fall short of offering these conditions to the global investment community. So, while equity markets present many opportunities for institutional investors to obtain exposure to climate change opportunities, they are limited to companies that are already listed on stock exchanges and are operating in well-developed, transparent and liquid capital markets.

### **(b) Publicly listed debt markets**

190. On the fixed-income side, institutional investors can invest directly by participating in the bonds issued to finance green projects. A bond is a type of a security that is similar to a loan in that when the bond is issued, money is lent to the entity issuing the bond that then promises to repay the principal and interest through to the bond's maturity. Depending on national legislation, a company, a municipality or a government can issue bonds.

191. In the realm of climate change investing, climate bonds or green bonds have been especially attractive to sustainability-oriented institutional investors who are looking for stable, long-term returns. In this sense, it is worthwhile mentioning that, in April 2021, the IDB and IDB Invest announced the launch of the Green Bond Transparency Platform,<sup>18</sup> an innovative digital tool that brings greater transparency to the green bond market in Latin America and the Caribbean. The Platform supports the harmonization and standardization of green bond reporting, thereby boosting investors' confidence that the proceeds from bond issuances are being spent on green projects whose impact is adequately measured. Users can learn about the proceeds, impacts, and methodologies for each green bond in the region and can filter data to access environmental performance using different criteria. Blockchain technology facilitates secure data reporting in the Platform. The online digital tool supports IDB efforts to scale up the green bond market in the region and helps national and municipal governments, financial institutions, and companies to access the financing they need to tackle climate change and make environmentally sustainable investments. Worldwide, the green bond market had reached a record issuance of USD 1.1 trillion by 2020. Latin America and the Caribbean represented 2% of this market in 2020.

### **(c) Real assets**

192. Real assets refer to those assets that have an intrinsic value and are tangible, and include real estate, timber and forestry. Timber and forestry investments are particularly critical for both climate change mitigation and adaptation. Timber investments have a low correlation with other asset classes and are often seen as an inflation hedge. There are a number of new funds offering exposure to timber and sustainable forestry, for example, Aquila Investment Fund.<sup>19</sup>

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<sup>18</sup> See <https://www.greenbondtransparency.com/>.

<sup>19</sup> See <https://www.aquila-capital.de/sachwertanlagen/sustainable-infrastruktur/land-use-carbon-forestry>.

**(d) Alternative investments**

*Private equity and venture capital funds*

193. Private equity can be defined as an equity investment in a company or an asset that is not publicly traded on capital markets, which means that private equity investments are not traded on exchanges. Venture capital is a form of private equity that invests in early-stage companies targeting new technologies and/or new markets. Investors usually invest in private equity through limited partnerships and take part in a portfolio of private equity investments while preserving their limited liability. This leaves management to the general partners, who often get involved in the management of the companies in which they invest.

194. Private equity and venture capital funds play an important role in providing capital to start-up clean technology companies. In emerging market private equity, investments have focused on more mature segments and more proven technologies, and have either served to: provide growth or expansion capital where access to capital markets has been limited; or make efficiency improvements in operations. One example of this is in the organization Breakthrough Energy.<sup>20</sup>

*Infrastructure funds and project finance*

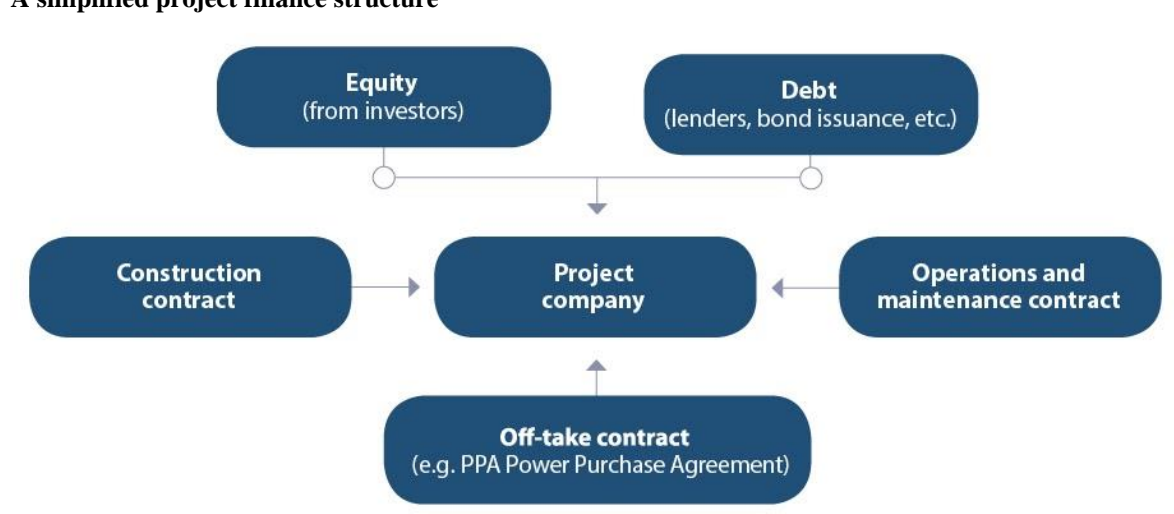
195. Infrastructure assets can be defined as the system of public works in a country, state or region, including roads, utility lines and public buildings, and they generally have long-term, predictable and stable cash flows. The private sector financing of public infrastructure usually takes the form of project finance, which is a type of long-term financing that is provided for a ‘ring-fenced’ project set up as a separate legal and economic entity (i.e. an off-balance sheet or a special purpose vehicle), whereby the project’s cash flows are used for debt repayment.

196. As figure 7 illustrates, in project finance structure, equity and debt financing are the two main sources of financing. However, the separate legal entity structure of the project company allows project finance deals to be highly leveraged, with debt financing covering more than 70% of a project’s total cost and the debt financing often coming from multiple lenders, depending on the size of the project.

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<sup>20</sup> See <https://www.breakthroughenergy.org/>.

Figure 7  
A simplified project finance structure



197. Private sector project finance debt is mainly provided by commercial banks in the form of long-term loans and by bond investors (e.g. insurance companies, pension funds) that purchase the bonds issued by project companies. In developing countries, multilateral and regional banks, as well as export credit agencies, also play an important role in the provision of loans and guarantees. Project finance debt has priority of repayment from the project's cash flows, while the equity investors' return is dependent on the level of success (high, low, etc.) of the project. Equity investors who are actively involved in the promotion, development and management of the project are often referred to as 'sponsors', and may bring in other equity investors such as insurance companies, pension funds and international financial institutions, especially in the case of developing countries.

#### *Carbon funds*

198. Throughout 2003–2012, within the framework of the Kyoto Protocol and the voluntary market, the carbon market was considered a financing mechanism to promote climate change mitigation projects. Project financing through the sale of carbon credits is now more common in sectoral private initiatives and voluntary and country initiatives, such as:

- (a) Verra voluntary carbon market;<sup>21</sup>
- (b) Carbon Offsetting and Reduction Scheme for International Aviation;<sup>22</sup>
- (c) Joint Crediting Mechanism.<sup>23</sup>

199. The carbon market has the potential to be a financial trigger for the implementation of climate change mitigation projects. However, in deploying a carbon market strategy, it is important to consider the definition of Article 6 of the Paris Agreement and NDC-related mitigation measures and financing options. If a country plans for mitigation measures to be partly financed with revenues from the sale of carbon credits, it will have to ensure that prices on the market are stable

<sup>21</sup> See <https://verra.org/>.

<sup>22</sup> See <https://www.icao.int/environmental-protection/CORSIA/Pages/default.aspx>.

<sup>23</sup> See <https://www.jcm.go.jp/>.



to ensure reliable and sustainable revenue for the cash flow of the project’s activity implementation and maintenance. Double counting of emission reductions should, of course, be avoided.

*Optimal financing mix*

200. As highlighted in the previous chapters, most climate change investments necessitate multiple sources of private and public funds. They can involve lining up multiple types of investor (e.g. debt, equity, and mezzanine investors) who may enter or exit the investment at different times. While these innovative PPPs have the potential to scale up climate change investment opportunities, they also add up to considerable execution risk in closing and managing the investment process for a given activity. It is often difficult for private investors to master the timelines and governance requirements of increasingly fragmented public sources of financing. If the public components in an investment package cannot be accessed in a timely manner, this may critically undermine the ability to leverage matching private capital. The appropriateness of PPPs to scale up climate management efforts, as well as the optimal mix of mechanisms employed, will vary depending on factors such as national economic conditions, target technologies, prior green policy and financial engineering experience.

201. To develop an optimal financing mix to promote climate investment, public policymakers will need to blend domestic and international, public and private, and innovative and traditional sources of finance, as well as loans and grants.

As a general rule, scarce public money should not be used as a substitute for private finance, but rather to finance issues for which private funds are not readily available. Accordingly, a first priority for public finance should be to create conditions that allow markets and private investment flows to address pressing environmental problems (policy change, institutional strengthening, local supply of expertise, etc.). Figure 8 shows the comparative scarcity of funding sources, while figure 8 introduces a series of steps for identifying possible sources of funds.

**Figure 8**  
**Comparative scarcity of funding sources**

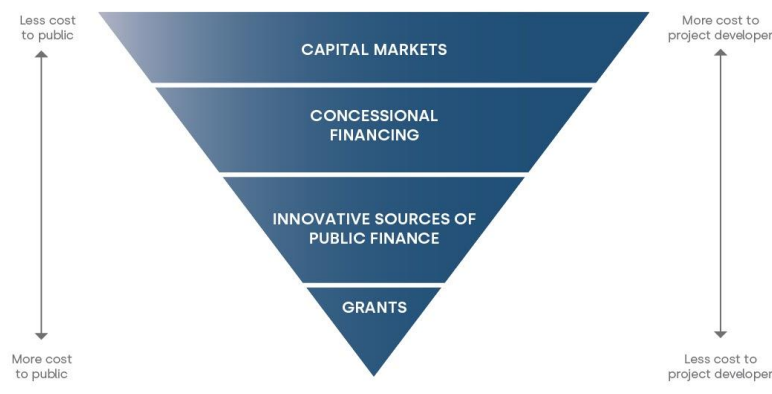


Figure 9  
Identifying possible sources of funds for each type of policy



202. As mentioned above, policymakers will have to coordinate a blend of domestic, international, public, private, concessional and grant resources to finance the design and implementation of the selected mix of public policies to catalyse climate finance.

203. This coordination process can be broken down into the following steps:

- (a) Assess the financing terms and delivery requirements (financing scale, disbursement timing, etc.) of the envisaged public policy measures to support technology development and deployment;
- (b) Take into account the constraints of all parties concerned, notably private investors in PPPs, and prioritize possible uses of public funds;
- (c) Review country and thematic eligibility criteria to existing relevant international and national public funds;
- (d) Identify possible gaps and overlaps in funding sources;
- (e) Identify possible cross-sectoral blending of finance to address gaps and minimize overlaps;
- (f) If necessary, adjust the mix or sequence of public policy instruments to address financial constraints.

## VI. Readiness for climate finance

204. This chapter addresses key aspects that a country needs to consider in preparing to use climate finance. Two papers were consulted in the preparation of the chapter: *Readiness for Climate Finance*<sup>24</sup> by UNDP and *Summary of Good Practice of Successful Project Preparation Facilities*<sup>25</sup> by Cities Climate Finance Leadership Alliance.

205. The UNDP paper defines climate finance readiness as the capacities of countries to plan for, access, deliver, and monitor and report on climate finance, both international and domestic, in ways that are catalytic and fully integrated with national development priorities and the achievement of the Millennium Development Goals (see table 19). The paper establishes four main components within this definition:

- (a) National capacities in place to plan for short-, medium- and long-term finance;
- (b) Capacities to manage and access different forms and types of domestic and international finance;
- (c) Capacities to deliver finance and implement or execute activities;
- (d) Capacities to monitor, report and verify financial expenditure and associated results and transforming impacts.

Table 19  
Components of climate finance readiness

<i>Financial planning</i>	<i>Accessing finance</i>	<i>Delivering finance</i>	<i>Monitor, report and verify</i>
Assess needs, define priorities and identify barriers to investment	Direct access to finance	Implementation and execution	Monitor, report and verify flows
Identify policies and sources of financing	Blend and combine financial sources	Build a local supply of expertise and skills	Performance-based payments
	Formulate projects, programmes and sector-wide approaches to access finance		

Source: UNDP. 2012. *Readiness for Climate Finance* (March 2012). Spanish version.

206. It is important to note that these components are present at the national, subregional and local levels. Different configurations of these four components can exist within institutions, between institutions or across national or sectoral systems. Different functions may be carried out through a variety of national systems and models, each of which is particular to its national context.

207. It should be taken into account that external capacity development support is not always required to build the above-mentioned components. Many capacities within this framework already exist at the national level in both the public and private sectors in the Republic of Honduras.

208. In addition, if assistance is needed, it is crucial to primarily strengthen existing institutions, policies and skills. Identifying and addressing the

<sup>24</sup> See <https://www.undp.org/publications/readiness-climate-finance>.

<sup>25</sup> See <https://citiesclimatefinance.org/publications/release-of-project-preparation-report/>.

strengthening needs of governance entities, through a wide and sectoral approach, is critical for the design of an effective climate finance strategy.

209. It is also vital that existing efforts and gaps can be identified, organized and coordinated. Through this process, barriers to climate finance mobilization can be identified in an integrated manner, ultimately producing a more coherent approach at the national level.

210. This approach recognizes that the needs of Honduras will evolve over time and must therefore be flexible. The four components of readiness are explored in further depth below. The particular capacities that are emerging as important on the ground are highlighted and examples of Honduras' experiences that may be of assistance in building and strengthening an effective approach to finance mobilization are given.

211. These sections are intended to inform policymakers in Honduras of the current situation and next steps to get the country 'ready' for developing and implementing a strategy for accessing and mobilizing climate finance.

### **A. Financial planning capacities**

212. Financial planning must allow decision makers to articulate their climate-related priorities and the financial resources required to meet them. Building and strengthening national, sectoral and local financial planning capacities ensures the integration of climate finance within national development and budgetary processes.

#### **1. Assessing needs, defining priorities and identifying barriers to investment**

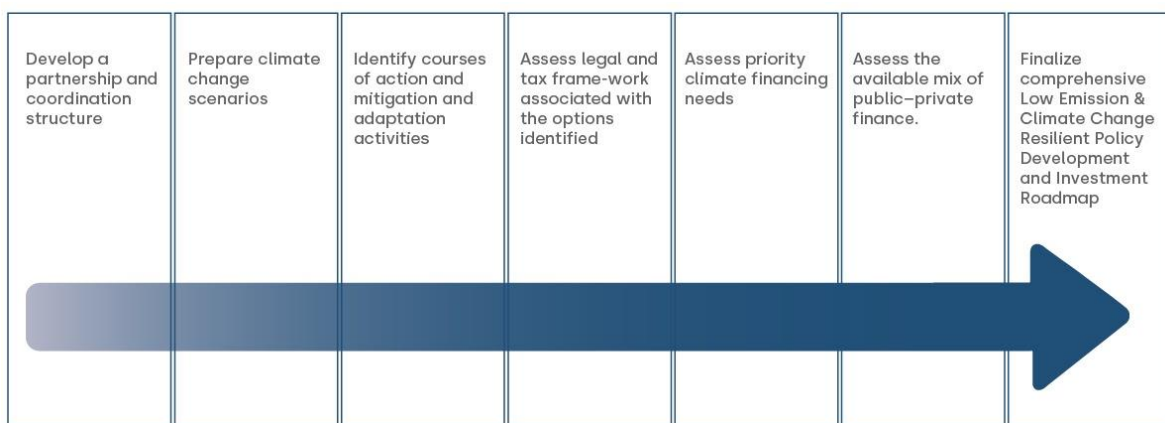
213. Planning for climate actions at the national level must be based on overarching development priorities at a local level. This requires the identification of national climate change actions based on robust climate change scenarios and emission baselines, development plans, action impact projections and a review of innovative solutions and available practices. On this basis, effective and appropriate actions can be articulated. These can include both new actions and actions that mainstream climate change within existing development spending.

214. An umbrella for this work is the preparation of green, low-emission and climate-resilient development strategies. Such strategies provide a vehicle for bringing needs assessments and priority setting processes together. As macro-level strategies, specific NAMAs, national adaptation plans, technology action plans and national strategic plans can be articulated along with the associated financial needs. The capacities required at the national level to assess needs and define priorities are complex to build and the process for strengthening them is iterative. This is particularly important given that climate finance flows are neither purely public nor purely private. This varied landscape requires specific national mechanisms for coordinating relevant government ministries and agencies around climate priorities, particularly ministries of finance (SEFIN, in the case of Honduras), as well as key economic and social actors, including international and domestic private sector stakeholders. This is why the definition of governance is critical for this process.

215. The approach should be implemented at a sectoral level in the various industries and activities developed in the country. The impact of each sector on reducing emissions and minimizing vulnerability and resilience to climate change

varies. Figure 10 below presents examples of the main aspects to consider in order to formulate a strategy.

**Figure 10**  
**Preparation of green, low-emission and climate-resilient development strategies**



## 2. Identifying a policy mix, coordination options and financing sources

216. In the context of national climate finance strategy design, decision makers must be able to identify the resource flows required for priority activities and plan associated sequencing of said flows. They must therefore have an understanding of the financial baseline i.e. what existing resources are already being directed towards climate change activities. A financial review will be required from time to time to determine this baseline at the national level. There are a number of different tools to support this process, including:

- (a) An investment and financial flows assessment that creates a baseline of existing expenditures at the sectoral scale, maps them on to priority climate-related activities and identifies existing gaps;
- (b) A climate public expenditure and institutional review that assesses national budget climate finance expenditures across sectors. Typical activities to support this review include:
  - (i) Defining climate change expenditures and a tracking system;
  - (ii) Identifying how to mainstream climate change into the budgetary process;
  - (iii) Conducting budget allocation and prioritization and recording actual expenditure.

217. Once the analysis has been carried out and existing financial flows have been identified, diverse capacities are needed to identify finance from different sources to fill remaining funding gaps. A central point in this process is clearly matching supply to demand. Identifying sources for climate finance can be highly complex owing to the range of finance options available, some of which include:

- (a) Government cooperation (e.g. bilateral cooperation, bilateral financing);
- (b) Private cooperation (e.g. national banks, private multilateral cooperation, microfinance);

- (c) Capital markets (e.g. green bonds, carbon markets);
- (d) Domestic budget.

218. Decision makers and project developers must be able to articulate financial needs in the form of both specific activities and programmes of activities, depending on the source of finance.

219. For external, multilateral and bilateral financing, planning processes are needed that can map domestic demand onto different sources of financing and their funding cycles. This requires knowledge of such international flows and a variety of tools have been developed to support policymakers in this regard. For example, the WB and UNDP have jointly developed a virtual tool.<sup>26</sup> Other tools worth mentioning include the US Climate Resilience Toolkit<sup>27</sup> and the Regional Gateway for Technology Transfer and Climate Change Action for Latin America and the Caribbean.<sup>28</sup> In addition, specific systems are needed among donor governments and organizations to promote coherence at the national level – such as donor–recipient government coordination groups – to ensure that donor finance is itself ‘ready’ and aligned with national needs.

## **B. Capacity to access finance**

220. As financing sources are numerous, it is increasingly important for countries to be able to directly access resources from different sources and then blend, combine and harmonize them at the national level in order to access a wider range of financial instruments. This includes formulating projects, programmes and sector-wide approaches that attract and catalyse further public and private financing. Accessing finance requires a range of different institutional tools, mechanisms, and modalities, and specific capacities are needed at the national level to put in place, execute and operate such modalities.

### **1. Direct access to finance**

221. The variety of options for accessing climate finance has increased over recent years, particularly for public finance from multilateral sources, within which the concepts of ‘direct access’ and, more recently, ‘enhanced access’ have emerged as modalities. These require specific and complex financial and programming systems at the national level and are therefore a key issue when considering whether countries are ‘ready’. Use of direct access modalities – such as those under the AF and the GCF – requires national or subregional entities to undergo an accreditation assessment that requires strong fiduciary capacities, compliance with environmental and social safeguards, and capacities associated with the roles and functions of an implementing entity.

222. The use of enhanced access modalities requires specific national financial capacities, the understanding of which is only beginning to evolve. As illustrated in figure 11 enhanced access, such as the holding of resources in trusts and the facilitation of their transparent allocation, shifts some components of fund management to accredited national entities rather than the vertical fund itself. Several countries and companies are exploring the establishment and accreditation of national climate funds through this modality as it allows for such funds to be

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<sup>26</sup> See [www.climatefinanceoptions.org](http://www.climatefinanceoptions.org).

<sup>27</sup> See <https://toolkit.climate.gov/tool/guide-assessing-green-infrastructure-costs-and-benefits-flood-reduction>.

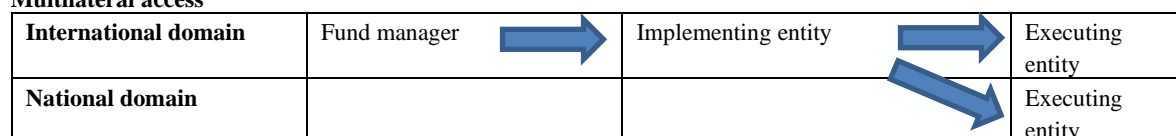
<sup>28</sup> See <https://cambioclimatico-regatta.org/index.php/en/documents-and-tools>.

used to collect and allocate national and international resources, as well as for access to bilateral public finance alongside multilateral finance and private investment funds. While this modality has the potential to greatly increase country ownership over fund allocation and coherence in accessing both multilateral and bilateral resources in ways that are aligned with low-emission and climate-resilient development strategies, access through this track will likely require more substantial financial management capacities, including legal arrangements for holding funds in trusts and governance systems to oversee allocation and report on the use of resources. Developing and strengthening these capacities, including fiduciary systems, transparent multi-stakeholder allocation systems and appropriate legal and reporting arrangements, will be critical to the effective use of resources under this modality. For example, a national climate fund serving as the fund manager would require accountable and legitimate arrangements for allocation of funds in line with the stipulations of the global fund from which resources may have been accessed. This requires governance systems that have legal decision-making power and are held accountable for their decisions through public disclosure arrangements.

Figure 11

**Access routes to multilateral financing**

**Multilateral access**



**Direct access**



**Enhanced access**

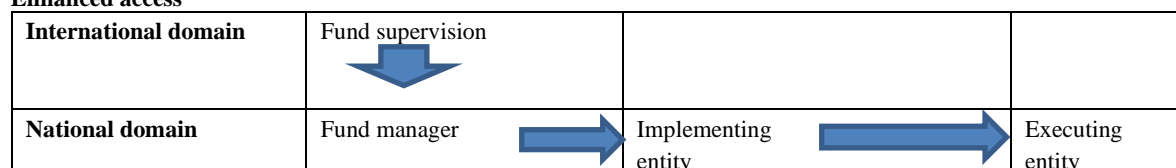


Table 20

**Functions of the fund manager, the implementing entity and the executing entity**

<i>Fund manager functions (some functions may be carried out by the fund secretariat)</i>	<i>Implementing entity functions</i>	<i>Executing entity functions</i>
<ul style="list-style-type: none"> <li>▪ Develops fund strategies, policies and guidelines</li> <li>▪ Reviews proposals submitted to the fund</li> <li>▪ Decides who receives funding</li> <li>▪ Instructs trustee on fund transfers to eligible implementing entities</li> <li>▪ Monitors implementation progress</li> </ul>	<ul style="list-style-type: none"> <li>▪ Project identification</li> <li>▪ Preparation of project concepts</li> <li>▪ Appraisal of project documents</li> <li>▪ Preparation of project documents</li> <li>▪ Approvals and start-ups of projects</li> <li>▪ Supervision over project</li> <li>▪ Evaluation of projects</li> </ul>	<ul style="list-style-type: none"> <li>▪ Management and administration of day-to-day project activities</li> <li>▪ Undertakes procurement and contracting of goods and services</li> <li>▪ Accountable to implementing entity for use of funds</li> </ul>

- 
- |                                               |                                       |
|-----------------------------------------------|---------------------------------------|
| ▪ Accountable to donors for fund expenditures | ▪ Accountable to fund on use of funds |
|-----------------------------------------------|---------------------------------------|
- 

*Source:* Author's adaptation and translation based on the UNDP *Readiness for Climate Finance* paper, published March 2012. Spanish version.

### 2. Combining and harmonizing resources

223. In addition to direct access, recipient countries have expressed the need to blend, combine and harmonize climate finance resources. This process allows access to a wider range of types of financing at the national level while directing finance resources in accordance with the country's needs. This can be done in two ways: either the bundling of different types of finance within a single project or programme (combine); or the use of one resource to restructure the terms of another (non-grant) resource (blend). Both approaches provide recipient countries with the power to transform resources at the national level and empower decision makers to access a wider range of financial instruments available from international financial suppliers to meet national needs. Empowering national institutions to combine and blend climate finance increases recipient-country ownership over the process of finance mobilization and understanding of how finance is used and in what form. However, both blending and combining require specific financial mechanisms and capacities at the national level. For example, resources can be combined through a national financial mechanism, such as a national development bank, a national climate fund or a simple trust fund, where resources are allocated together side by side.

224. Combining finance poses few financial complications as no additional financial risk-taking is required (as no extra debt is issued) and results can be easily attributed to each financing sources. However, certain capacities are required to allocate resources in a transparent and accountable way. Blending resources requires different, more complex financial capacities. Resources must be held on an entity's balance sheet together and, depending on the nature of the blending, may be reformulated into different financial instruments (e.g. lowering interest rates or extending the repayment period of a loan) with financial terms renegotiated. This requires banking functions and, therefore, restricts the type of institutions at the national level that can be involved. Developing and strengthening these systems, which include as national climate funds, is complex and, depending on the configuration and purpose, can require legal status, fund management capacities and, where sovereign guarantees are needed for non-grant resources in the fund, a formal connection to ministries of finance (SEFIN, in the case of Honduras). Each of these is an important part of building and strengthening country systems to manage climate finance and requires specific and detailed attention. Examples of blending systems at the national level are common within development finance, particularly through national development banks in developing countries.

### 3. Formulating projects

225. When considering capacity to access finance, a topic considered in the UNDP *Readiness for Climate Finance* paper, it is useful to consider the above-mentioned *Summary of Good Practice of Successful Project Preparation Facilities* paper by the Cities Climate Finance Leadership Alliance to analyse 'bankability' and other project planning concepts.

226. Accessing finance requires recipient countries to be able to formulate attractive and bankable project. 'Bankable' here describes projects that have appropriate risk management mechanisms, a favourable internal rate of return that



makes them financeable, and are generally sufficiently robust. It must be taken into account that the formulation of projects and programmes is a fundamental cornerstone to obtaining a competitive funding structure.

227. Within the project preparation process, there is no single or defined way of proceeding. However, several stages can be distinguished as a common denominator:

(a) Pre-feasibility planning: this stage includes the first steps involving project selection and the decision to further develop a project. Pre-feasibility studies, cost estimates, funding analyses and testing of alternative approaches can be part of pre-feasibility planning. First considerations of environmental and social factors also take place in this phase;

(b) Feasibility planning: this phase proceeds to a more technical level and involves more concrete project aspects like feasibility studies, demand planning, engineering, sustainability and resilience aspects, technical planning, institutional and procurement arrangements, a business plan and environmental and social impact assessment;

(c) Operation phase planning: long-term planning implies taking the operation phase of a project into account. Therefore, this stage emphasizes the development of public and private delivery options, formal quantitative analyses, market testing and selection of procurement approach;

(d) Processing and approval: in this phase, financial, administrative, legal, procurement and risk management arrangements are made.

228. Project preparation support still remains mostly dependent on grants largely provided by public institutions, with subnational climate projects themselves still being financed by development institutions or other public donors and only rarely by the private sector. Like in other areas of the world, there are further remaining challenges concerning a lack of institutional capacity of local and regional governments as well as current legal frameworks often creating a non-enabling environment. Furthermore, the nature of many infrastructure projects (e.g. social infrastructure) implies that their returns may be insufficient and they may thus be unable to attract private sector investment.

229. This report explores solutions and develops recommendations through expert discussions showing how risk mitigation instruments, project structuring and fair PPP models may be combined with and tailored to specific project characteristics. In addition, suggestions for new PPF approaches are made. A summary of these main findings is presented in table 21.

Table 21

**Main bottlenecks, solutions and recommendations in project preparation**

<i>Bottleneck</i>	<i>Relevant level</i>	<i>Solution</i>	<i>Relevant scope</i>	<i>Recommendation</i>
Funding constraints for project preparation	Local, national and regional level	Scaling up funding sources	Enabling national policies	<ul style="list-style-type: none"> <li>National governments should contribute to project preparation funding</li> <li>Financial incentives could encourage private sector investments in project preparation</li> </ul>
	Project level	Scaling up PPF capacity	PPF: approaches and business models	<ul style="list-style-type: none"> <li>Project preparation costs could be made part of project loans</li> </ul>

## Technical Assessment of Climate Finance Honduras

Political buy-in	Local and regional level	Making need of climate-project transparent	Country: commitment to climate finance PPF: access to local authority	<ul style="list-style-type: none"> <li>• PPS could develop commercial business models, when appropriate</li> <li>• Climate risks should become integrated part of country's development plans and decision process</li> <li>• Local experts could facilitate interaction with main actors</li> <li>• Strong domestic financial institutions could ensure linkage between all levels</li> </ul>
	Project level	Inclusion of local authorities and stakeholders (including local financial institutions and civil society, where applicable) in project development	PPF: inclusive approaches	PPF should include relevant stakeholders from the beginning of the project preparation (including local financial institutions)
Lack of private sector participation	Project level	Development of project preparation models	PPF: project structuring	<ul style="list-style-type: none"> <li>• Solid local financial intermediaries should be supported</li> <li>• Government's and PPFs' capacity for private sector collaboration should be strengthened from the early stages of project preparation</li> <li>• PPFs should demonstrate to governments that quality technical assistance in project preparation reduces inherent risks and improves chances of attracting the private sector and achieving financial closure</li> </ul>
Financial risks, low creditworthiness	Local level, project level	Application of risk mitigation instruments, reduction of early-stage risk by project preparation	PPF: risk mitigation through project	<ul style="list-style-type: none"> <li>• PPFs should make use of risk mitigation instruments in collaboration with development finance and private sector finance</li> <li>• PPFs should share success stories with risk mitigation instruments, as well as lessons learned</li> <li>• PPFs could create and share track record of successful project to raise creditworthiness</li> </ul>
Insufficient project organization	Project level	Improving capacity of project developers	PPF: project management	<ul style="list-style-type: none"> <li>• PPFs should be engaged throughout the whole project preparation stage</li> <li>• PPFs should carefully select sectors, regions and scope of activities to develop sufficient expertise</li> </ul>
	National and international level	Improving capacity of project developers	PPF: project management	<ul style="list-style-type: none"> <li>• Local experts should be hired</li> <li>• National hubs of expertise could provide the right technical advice and ensure linkage with adequate source of funding</li> </ul>

## Technical Assessment of Climate Finance in Honduras

Legal obstacles	National level	Legislative reforms	Legal framework	<ul style="list-style-type: none"> <li>• Similar project initiatives at higher levels should be identified to avoid duplication of work and fragmented planning</li> </ul> <p>National legal framework should be improved to raise allocation of climate finance</p>
Lack of institutional capacity at local and regional level	Local and regional level	Improving capacity of local and regional governments	PPF: capacity development	<ul style="list-style-type: none"> <li>• PPFs may combine preparation with capacity-building for local and regional governments</li> <li>• Coordination between different levels of government</li> </ul>
Economic and political risk	National and international level	Providing finance through development institutions	General environment	PPFs and development finance should lower the higher overall risk by project preparation and finance crowd in additional finance
	Local and regional level	Coordination between different levels of government across time	PPF: access to local authorities; General environment	PPFs should promote continuity and coherence of projects amid continuous political and institutional transitions
Sustainability	Project level	Making environmental, social and governance assessments part of PPF approaches	PPF: environmental, social and governance due diligence within procurement rules	PPFs should make support conditional on sustainability requirements

*Source:* Author's adaptation for the specific case of Honduras based on data from the *Summary of Good Practice of Successful Project Preparation Facilities* by Cities Climate Finance Leadership Alliance.

## **C. Capacity to deliver finance**

230. Delivering finance – in other words, the implementation and execution of activities at the regional, national or local level – is the third component of national climate finance strategy readiness and is key to ensuring that climate finance contributes to effective and transformative actions at the national level. Distributing and delivering resources requires national systems that provide financial oversight and management, as well as execution services such as procurement, contracting and hiring. These systems must have a local supply of expertise from which to procure skills to undertake project activities. Furthermore, coordination among entities is essential to ensure that project-level activities are in line with national development planning and strategies at the macro level.

231. Creating new mechanisms, or adapting old ones, is fundamental to achieving an efficient investment flow. Efficiency in financial flow management is evident where: resources reach the beneficiaries quickly; the cost of financial intermediation and management is competitive and does not undermine the resources for implementation; the economic, social and environmental impact can be measured; and sustainable projects are generated from those funds.

### **1. Implementation and execution**

232. Implementation and execution services are core capacities required for climate finance to be delivered effectively. Implementing entities are responsible for identifying, overseeing and appraising programmes and projects for finance providers. Moreover, implementing entities, in the case of public resources would normally be expected to hold the resources released by the funding source. This role requires robust fiduciary capacities, including self-investigative powers, many of which are required to gain access to resources in the first place, especially in the case of direct access. In addition, implementing entities may be involved in blending and combining finance. In particular, combining and blending finance often takes place within individual projects and programmes, therefore requiring entities involved in project management to possess much of the financial knowledge. The executing entities receive funding to carry out work programmes and may use subcontracting arrangements to complete these activities. Executing entities require transparent procurement procedures, must be able to report regularly to implementing entities on progress and, critically, must have project management capacities.

233. Emphasis is increasingly placed on preparing entities to take on such implementation and/or execution roles and, accordingly, demand for support is increasing. In this context, there is a particular focus on direct access entities to ensure that those institutions applying for accreditation to global funds have strong oversight systems in place.

### **2. Local supply of expertise and skills**

234. Both implementation and execution systems rely on a pool of local skilled workers and agencies that can be contracted to complete various elements of climate projects and programmes, from background analyses to installation and maintenance of technologies and project management. Capacity development is often needed to develop this endogenous talent pool and grow a green economy at the local scale. Examples of capacity development activities include:

- (a) Vocational training of professionals such as financiers, architects, engineers, contractors, builders, energy efficiency installers and sales personnel;

(b) Individual guidance related to project design choices, such as technology selection or choice of suppliers and contractors;

(c) Leadership programmes using local expertise centres focused on specific technology sectors.

235. It is important to involve different stakeholders to have trained human resources and available local support entities that may gradually increase the possibilities of providing goods and services with more added value in response to public and private demand in a low-emission economy. To achieve this, capacity strengthening must include training and involving local entities, professionals and technicians in:

(a) Technical tertiary academic institutions and universities;

(b) Local companies providing goods and services;

(c) Non-governmental organizations;

(d) Research and development institutions;

(e) National and local public organizations;

(f) Local communities.

### **3. Project coordination systems**

236. Project coordination systems are essential as the creation of climate finance mechanisms involves coordinating and aligning multiple financing sources at a national and international scale and the macro and micro levels. Such coordination systems should be linked with national low-emission and climate-resilient development strategies to ensure coherence between planning and implementation. Furthermore, coordination systems at the project level are important to ensure that implementing and executing entities are programming resources in compliance with policies and requirements such as social, gender and sustainability standards imposed by government or funding providers. Such coordination systems could be in the form of a multi-stakeholder steering committee rather than a national-level body. What is essential is that systems are in place to ensure marginalized groups are included within the delivery of climate finance. Support is essential for the development of these systems that often require dedicated technical assistance to be built into project budgets.

## **D. Monitoring, reporting and verification capacities**

237. The final component of national climate finance strategy readiness is the capacity to monitor, report and verify environmental and social indicators (such as biodiversity, gender, employment level, ancestral knowledge, access to water, water management, governance, climate resilience, etc.), financial flows, expenditure and results. Within the context of UNFCCC negotiations, the monitoring, reporting and verification of financial flows and that of results on the ground are treated as distinct issues. On the one hand there are discussions about the monitoring, reporting and verification of financial flows; on the other there are discussions about the monitoring, reporting and verification of mitigation actions themselves, such as GHG reductions and development benefits. However, at the national level there are significant overlaps in the capacities required to monitor, report and verify finance expenditure and results, especially when related to a 'payment by results' policy. Pay-per-service structures require continuous monitoring and reporting on environmental and social indicators, while result-

based payment mechanisms require quantification, monitoring and verification of GHG emission reduction and capture.

238. Such systems require an explicit attribution of GHG reductions (‘results’) in order to access financial flows (‘payments’) and therefore need integrated national reporting mechanisms. A flexible approach is therefore needed to advance monitoring, reporting and verification systems while maintaining a consistent level of transparency and accuracy.

**E. Summary of climate finance readiness and associated local capacities required**

239. To finalize the analysis of the four components of climate finance readiness, a summary is presented in table 22.

Table 22

**Components of climate finance readiness and associated local capacities required**

	<i>Financial planning</i>	<i>Finance access</i>	<i>Finance delivery</i>	<i>Monitoring, reporting and verification</i>
Levels of national capacities	<ul style="list-style-type: none"> <li>Assess needs and priorities</li> <li>Identify sources of financing</li> </ul>	<ul style="list-style-type: none"> <li>Programming finance</li> <li>Direct access to finance</li> <li>Blend and combine finance</li> <li>Catalyse private finance</li> </ul>	<ul style="list-style-type: none"> <li>Project, programme, sector-wide implementation and execution</li> <li>Local supply of expertise and skills</li> <li>Coordination systems</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring, reporting and verification of flows</li> <li>Performance-based payments</li> </ul>
Policy level	Formulation of green, low-emission and climate-resilient development strategies and implementation plan, including costing	Sectoral policy incentives and regulations to catalyse private investments		
Institutional level	Effective national multi-stakeholder coordination mechanisms	Implementing entities with fiduciary systems and safeguards; national banking institutions	Implementing and executing entities with fiduciary systems and safeguards; project-level multi-stakeholder mechanisms; climate-aware public financial management systems	Centralized unit to compile and control quality reporting; and communications unit
Individual skills level	Baseline assessments; investment and financial flows	Financial management (combining/blending) skills; project/programme	Specialist technology skills (e.g. wind energy technologies)	Expenditure review methodologies; GHG inventory

assessments; expenditure reviews; cost- benefit analyses	formulation skills; expertise in private sector pricing incentives	installation); project management skills	skills; independent verification skills
-------------------------------------------------------------------	--------------------------------------------------------------------------	---------------------------------------------	--------------------------------------------------

Source: Author's adaptation for the specific case of Honduras based on data from the *Summary of Good Practice of Successful Project Preparation Facilities* by Cities Climate Finance Leadership Alliance.

## VII. Recommendations for designing Honduras' nationally determined contribution plan

240. The present chapter introduces the main recommendations and steps to follow in order to start designing an NDC investment plan and defining a financing strategy.

### A. Strengths

241. Honduras already possesses a number of strengths that are key to designing an NDC investment plan and mobilizing funds to finance NDC-related projects. These strengths can be summarized as follows:

- (a) Qualified local technical teams in the public and private sector;
- (b) A public investment cycle with established rules and governance;
- (c) A robust public and private financial sector with experience of working with different financial instruments;
- (d) Experience in fund mobilization from different sources in both the public and private sectors;
- (e) Defined NDC objectives and contributions, clearly indicating that climate change adaptation is the country's priority.

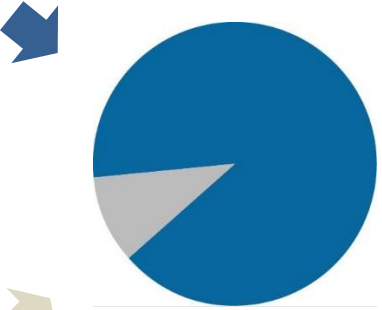
242. Some additional key aspects are important to consider when designing the investment plan; namely:

- (a) Project preparation: it is important to select public and private projects that will be considered as being in compliance with the NDC;
- (b) Public investment cycle: all NDC-related projects requiring public investment will have to be included in the national public investment cycle. The NDC must therefore become an assessment variable within the priority note. Even though climate change is currently a criterion in the priority note, the definition of climate change used in that context is general. Instead, the definition agreed upon by countries for Paris Agreement compliance must be introduced, thus enabling future access to NDC-specific financing lines. Honduras is currently in receipt of traditional financing only, but it could apply for specific differentiated financing lines for NDC-related projects;
- (c) Country risk: country risk variables, as well as the impact such risks will have on the public and private climate finance strategy, should be further analysed;
- (d) Implementing entities: these should be selected according to their associated risk in order to ensure project execution stability and compliance with financing commitments pledged.

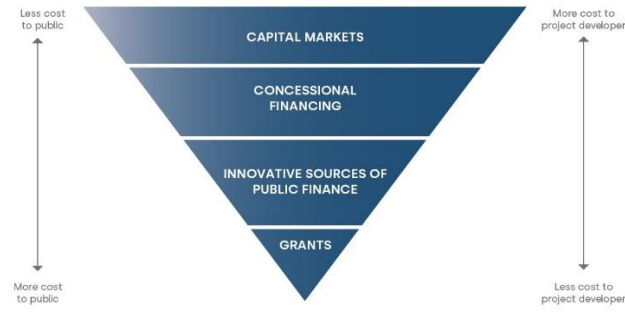
## B. Recommendations

Table 23

### Key issues on NDC objectives and contributions and on financing sources, and recommendations on how to move towards a climate finance plan

<i>NDC objectives and contributions</i>	<i>Multilateral public financing, bilateral cooperation and other funds</i>	<i>How to move forward towards a climate finance plan?</i>
<p><b>Public and private projects</b></p> <p>It is important to consolidate local teams to formulate private projects to be eventually submitted to financiers. In the case of public projects, it is advisable that leadership of the financing component and the financial model be held jointly with SEFIN technical teams.</p>	<p><b>The public sector starting point</b></p> <p>The illustration below shows the proportion of the country's financing received from the IMF and multilateral banks such as the IDB, the CABEI and the WB (concessional, ordinary or non-refundable financing) (in blue);</p>  <p>and other bilateral cooperation funds, the AF and the GCF (in grey).</p> <p>The illustration above shows the share that actually accounts for different sources of fund mobilization. This conclusion is aligned with the comparative scarcity of funds mentioned in chapter V and depicted in the illustration below.</p>	<p><b>Key aspects</b></p> <ol style="list-style-type: none"> <li>1. Select applicable public and private projects that comply with NDC objectives and contributions;</li> <li>2. Establish a working team with solid experience in project structuring and management to interact with financing entities (to identify local capacities and complement them with regional capacities);</li> <li>3. For projects requiring public investment, define how projects will be categorized within the priority note and SEFIN investment cycle;</li> <li>4. Define the climate finance concept and the terms and conditions for that type of indebtedness;</li> <li>5. Open up a dialogue between the financial sector and the public and private banking sector;</li> <li>6. Decide on the consideration of the carbon market as a financing mechanism for mitigation measures (national position in relation to Article 6 of the Paris Agreement).</li> </ol>





It is advisable to carry out this analysis for the public and private banking sector in order to establish a starting point and identify steps towards defining and accessing climate finance.



Owing to the nature of NDC objectives and contributions, many projects will be related to climate change adaptation and to reducing the country’s vulnerabilities. Many such projects will require public investment or a public–private alliance investment. Components of fiscal sacrifice and heavy public indebtedness related to NDC compliance will necessarily arise.

Key and leading role in the definition of climate finance from the IMF and multilateral banks in Honduras.

- Defining the climate finance concept will be a key issue for Honduras. It is important to open up a dialogue between SEFIN, the NDC focal point, the IMF and the multilateral banks to work on this issue.
- Creating a public–private climate and sustainable finance working group involving the financial and banking sectors will be crucial to moving forward towards coordinating a financing mix for NDC compliance.
- Identifying and defining the role and duties of implementing entities will be key to completing the projects, complying with the commitments to the financing entities, and providing reliable information to the NDC focal point for UNFCCC reports within the framework of the Paris Agreement commitments made by the country.

Within the framework of the present report, the following two recommendations are offered for the Government of Honduras to consider:

- To assess the participation of SEFIN in the Coalition of Finance Ministers for Climate Action,<sup>a</sup> which brings together fiscal and economic policymakers from over 60 countries in leading the global climate response and securing a just transition towards low-carbon resilient development. Finance ministers know most clearly the economic consequences of climate change: both the risks posed by its mounting impacts on their economies and, increasingly, the opportunities of climate action, which could unlock USD 26 trillion globally in investments and create 65 million more jobs by 2030. They can play a leading role by incentivizing climate-informed public expenditure and utilizing climate-related fiscal tools such as carbon taxes and emissions trading systems to cut emissions and prioritize low-carbon growth. The Coalition is currently chaired by the finance ministers of Finland and Indonesia with a secretariat managed by the WB. Costa Rica, Guatemala and Panama are the Central American countries that are currently part of the Coalition.
  - When defining the creation of a public–private climate and sustainable finance working group, it is advisable to use the guidelines of the Public–Private Green Finance Round Table of the Republic of Chile<sup>b</sup> as a foundation.
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243. Finally, and to round up the present report, the formulation of new priorities and future finance must consider a series of factors in the context of the NDC, including vulnerability to climate change, degree of economic development and contribution to global emissions. Below is an analysis of these factors and some initial recommendations:

Table 24

## Factors to consider in the formulation of new priorities and future finance in the context of the NDC and recommendations

<i>Factor</i>	<i>Position</i>	<i>Description</i>	<i>Actions</i>
Vulnerability to climate change	Country highly vulnerable to climate change	In the Global Climate Risk Index 2019 by Germanwatch, the Republic of Honduras is identified as among the top three countries globally that have been most affected by extreme climate events in the last two decades. <sup>a</sup>	<ul style="list-style-type: none"> <li>• Institutionally strengthening COPECO and the National Emergency Preparedness and Response Fund</li> <li>• Strengthening the meteorological system for early alerts</li> <li>• Prioritizing the review and modernization of land-use planning and water management with a strong reinforcement of local capacities that will carry out this long-term task</li> <li>• Identifying the resilient infrastructures that are a priority for the country</li> </ul>
Economic development	Country highly vulnerable to climate change  Very high investment risk	According to the WB, <sup>b</sup> Honduras has registered the second highest economic growth rates in Central America in recent years. However, the country has been facing high levels of poverty and inequality. In 2018, 48.3% of the population lived in poverty and the percentage of people living in poverty in rural areas (60.1%) is higher than those living in urban areas (38.4%). Inequality, which, with a Gini rating of 52.1 in 2018, was among the highest in the region and the world, has resulted in one of the smallest middle classes in Latin America and the Caribbean (11% in 2015 compared with a regional average of 35%). In addition to this, the COVID-19 pandemic continues to significantly impact Honduras' economy. Coface has allocated Honduras country risk assessment D and business climate assessment C.	Open a formal dialogue between the NDC focal point, SEFIN and the public and private financial and banking sector. It is important to define how the issue of climate finance will be approached, taking into account the country's vulnerability to climate change and the investment risk that the country currently presents.
Global GHG emissions	Country with very low GHG emissions	Although Honduras is severely impacted by climate change, its contribution to this phenomenon is relatively small, with GHG emission levels lower than the average of countries in Latin America and the Caribbean and other lower-middle income countries. For the Republic of Honduras, with a GHG emission percentage of less than 0.1% of the global total, the priority is undoubtedly adaptation to climate change. Given the high vulnerability of the country, in its current NDC, the Republic of Honduras established that its	<p>Medium- and long-term mitigation measures that will be part of the NDC investment portfolio, the main recommendations are the following:</p> <ul style="list-style-type: none"> <li>• Forest preservation and agroforestry development. It is recommended that the following two initiatives be assessed: <ol style="list-style-type: none"> <li>1. REDD+: to assess the possibility of developing a carbon credit project at the national level and coordinating a long-term sale in a bilateral arrangement at the country or institutional level, e.g. through the Carbon Offsetting and Reduction Scheme for International Aviation initiative. It is advisable to hold these analyses within the voluntary market environment until a country definition is</li> </ol> </li> </ul>

<i>Factor</i>	<i>Position</i>	<i>Description</i>	<i>Actions</i>
Mitigation Contributions	Country with high contributions	<p>priority on climate action is adaptation and building a resilient, low-carbon economy.</p> <p>Considering Honduras’s economic situation and its low level of emissions, it is important to highlight its very early contribution to global climate change mitigation goals by contributing to the development of CDM development projects (30 CDM projects, total contribution –17 million t CO<sub>2</sub> eq) and the voluntary carbon market and introducing renewable energy in the country.</p>	<p>decided in relation to Article 6 of the Paris Agreement. It is advisable to start a dialogue with the Verra platform technical team.</p> <p>2. To carry out a technical and financial study with a view to creating a payment system for environmental services. It is recommended that the participation of the agricultural, forestry and financial sectors be considered. The active participation of BANPRHOVI and BANADESA is also advisable. Hiring a regional Spanish-speaking expert with prior experience would be desirable to facilitate collaboration with local organizations on the study.</p> <ul style="list-style-type: none"> <li>• In relation to the initiatives related to NAMAs on coffee, cattle-breeding, eco-stoves and biogas, it is advisable to analyse financing at a local level. It is recommended that the financing of these projects be addressed within the framework of the climate and sustainable finance working group, whose creation was suggested earlier in the present report. To that end, some useful first steps could be to draft a project preparation proposal to submit to financiers and to select the implementing entities. For this preparation phase, access to bilateral and multilateral cooperation finance is advisable. The support of local and/or regional experts with specific expertise in the preparation of bankable projects is recommended. <ul style="list-style-type: none"> <li>• Biogas recovery and energy generation at the Tegucigalpa landfill: it is advisable to structure a renewable energy generation project using a project finance structure. A robust and long-term PPA should be ensured to allow for such a financial arrangement. In case the PPA is not sufficient, the tipping fee or gate fee (a fee paid by anyone who disposes of waste in a landfill) should be considered as part of the repayment collateral analysis. Also, the analysis of a finance option through an agreement with the Japanese Government Joint Crediting Mechanism<sup>c</sup> should be considered. There is experience in Mexico of co-financing biogas recovery and electricity generation systems by means of the sale of carbon credits within the Mechanism. In relation to this issue, the Government of Honduras will have to determine whether the carbon market may be considered a climate change mitigation project financing mechanism.</li> <li>• Energy efficiency of household appliances: it is advisable to start a dialogue with the local financial and banking sector to identify the role of financefin entities in the development of a financing plan for efficient household appliances. It may be helpful to explore the experience of the eco-banking project on the GRM platform.</li> <li>• Energy efficiency in buildings and transportation (electromobility and biofuels): it is advisable to start assessing the possibility of coming to an agreement at the country level with the European Union International Urban Cooperation programme for the cities of Tegucigalpa and San Pedro Sula. This may help the two cities to develop projects on sustainable transport and energy efficiency with the support of other cities of the European Union that have already gone through a project formulation and financing process. The programme engages with major international</li> </ul> </li> </ul>

<i>Factor</i>	<i>Position</i>	<i>Description</i>	<i>Actions</i>
			<p>financial institutions and partners to link city decision makers with potential funders. Entering into this type of cooperation would therefore allow Honduras to identify future financing sources for relevant initiatives.</p> <ul style="list-style-type: none"> <li>• Micro-network systems and a national interconnection system: it is recommended that existing projects with ENEE as an executing entity be assessed to establish whether they might be categorized as NDC-related projects</li> </ul>

<sup>a</sup> See [https://germanwatch.org/sites/germanwatch.org/files/Indice%20de%20Riesgo%20Climatico%20Global%202019%20-%20Resumen\\_0.pdf](https://germanwatch.org/sites/germanwatch.org/files/Indice%20de%20Riesgo%20Climatico%20Global%202019%20-%20Resumen_0.pdf).

<sup>b</sup> See <https://www.bancomundial.org/es/country/honduras/overview#1>.

<sup>c</sup> See <https://www.jcm.go.jp>

### **C. Final thoughts**

244. Honduras has climate change governance, public financial system governance, a robust public and private financial sector and solid experience in fund mobilization.

245. In order to channel fund mobilization adequately, a public–private climate and sustainable finance working group must be formed. The working group will provide a framework for structuring climate finance in line with NDC needs and based on the country’s experience and pursuing differentiated financing for NDC-related projects. This will involve not only non-refundable bilateral cooperation, but large-scale debt at differentiated rates in acknowledgement of the impact of climate change on Honduras.

246. Honduras has the technical teams to achieve that goal; it must now open up a dialogue between stakeholders and allow them to work in a coordinated way. To that end, they must work responsibly, in agreement, and with a long-term vision to source reliable finance for the implementation of NDC-related projects to honour its Paris Agreement commitments.

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