

Honduras SREP Investment Plan Technical Review

1. **Title of Investment Plan:** PROGRAMA DE AUMENTO DEL APROVECHAMIENTO DE FUENTES DE ENERGIA RENOVABLE (SREP) / PLAN DE INVERSIONES DE HONDURAS. Completed Spanish version received on October 1st, 2011 at 09:49 a.m.
2. **Program under the SCF:** Scaling Up Renewable Energy Program in Low Income Countries (SREP)
3. **Name of the reviewer:** Oscar Coto
4. **Date of submission:** October 5th, 2011.
5. **Part I: General Criteria**

The Honduras SREP Investment Plan (IP) is written based on a thorough description of the current context situation both of the country and the energy sector, paying attention to describing both the grid connected and off grid rural contexts (regulatory and status of project development); also including a brief description of the rural energy for cooking situation, as well as including the description of the renewable energy endowment of the country. The proposed plan is also situated within the framework of aspirations of the country as related to the *Ley de Visión de País* and the *Plan de Nación*, both of which include specific aspirations for the inclusion and scaling up of the participation of renewable energies (RE) as well as to the improvement of access to energy services by the country's population.

The plan is also based on a discussion of perceived barriers that are restricting the current efforts related to the scaling up and mainstreaming of RE within grid and off-grid connected electricity. The proposed IP intends to include a set of diverse activities from a programmatic perspective by defining three (3) areas of involvement for SREP: (i) a series of activities aimed at improving the normative and regulatory framework in support of RE, (ii) a program for supporting the development of grid connected RE projects named PAPER (which includes the development of financial mechanisms for project finance and the leveraging of monetary resources required to increase the transmission capacity required to evacuate RE into the grid), and (iii) a program for rural energy service provision based on development of RE linked to productive uses of energy, which is also inclusive of a component for improved cooking stoves dissemination in rural communities.

According to the evaluation criteria for the technical review, the proposed Investment Plan:

- a. Complies with principles, objectives and criteria of SREP? The IP complies with the principles, objectives and criteria of the SREP program as specified in the DESIGN DOCUMENT FOR THE PROGRAM ON SCALING-UP RENEWABLE ENERGY IN LOW INCOME COUNTRIES (SREP), A TARGETED PROGRAM UNDER THE STRATEGIC CLIMATE FUND. There is a link established in the IP on the complementarities of SREP funds to already on-going efforts, especially on the side of grid connected RE project development; although less clear for the third component of the proposed program.
- b. Takes into account in-country capacity to implement the plan? The IP clearly supports the aspirations of the country and the willingness to make every effort possible to properly implement the IP. An issue to be noted is that the proposed investment plan does not include any resources from the Government of Honduras except for operations expenses for investment preparation during 5 years. Such level of contribution is not discussed in the context of the overall disbursement plan and is not properly justified as

adequate for the level of engagement required in order to move the IP into action. Moreover the IP is not requesting any SREP resources for investment preparation as per each program component detailed description in the relevant annexes 5, 6 and 7.

- c. Has been developed on sound technical basis? The IP seems to have been developed based on sound background and context information as well as by having assessed perceived barriers for the deployment of RE in the country in both target areas of the program. The context discussion lacks the inclusion of important areas such as the grid off take capacity for RE technologies as well as a discussion on the banking and financing sectors as they relate to important components of the proposed IP.
- d. Demonstrates how will initiate transformative impact? The IP assumes rather than demonstrates how it will initiate transformative impact. This is especially true in the case of the component related to RE for sustainable rural energy service provision, where there is little clarity on the plan on issues related to targets and identification of key actions to enact movement (taking into account that it is solely dependent on SREP funds as well as ICAs, with no government counterparts). On the RE for grid connected component, the IP assumes the participation and competitiveness of the proposed financial arrangements to be developed, as well as the myriad of institutions and organizations involved, but there is little discussion and justification on the appropriateness of the implementation arrangements.
- e. Provides for prioritization of investments, capture and dissemination of lessons learned, M&E and links to results framework? The IP assumes a prioritization of investments but lacks depth in supporting the proposed structure and how the selected one is relevant to create the transformative impact. The program results framework linked to M&E is very vague in most of the variables, where there is hardly any baseline and target information; therefore making the assessment of how investments will be linked to results themselves. As per capture and dissemination of lessons learned the IP is not very clear (table 18 refers to lessons learned amongst countries, which does not seem to be applicable as well as referring to a PAAFRE program which is not defined anywhere). Links from the description of each component of the program and their associated targeted indicators to the overall project monitoring framework seem to be weak, and in many cases important indicators do not seem to be carried into the overall monitoring and evaluation structure.
- f. Proposed with sufficient stakeholder consultation? The existence of an SREP in-country steering committee assures high level participation of key stakeholders during the formulation of the plan, and hopefully into the implementation of the plan. It is stated that during both the scoping and joint mission, interviews were conducted with relevant stakeholders in the country. Although the plan states in Annex 2 that there will public consultations to the plan, it is not clear if the web based consultation will happen after submission for final approval by SREP and how relevant inputs will be taken into account in due process.
- g. Addresses social and environmental issues, including gender? Important aspects related to social and environmental issues seem not to be adequately discussed in the IP; for example the issue of acceptance of hydro electric development and its relation to local consultation processes may merit further discussion (especially in a country like Honduras with a weak current political situation and climate for stakeholder discussions and convergences). Another aspect that seems not to be addressed relates to the issue of RE technology acceptance considerations given in the formulation of relevant activities in the rural off-grid component of the plan (also related to the issue of improved cook stoves). Although the IP mentions the importance of gender components, the issue is only linked to the monitoring of access to energy services by rural men/women;

whereas there is ample experience in the energy-gender community that better and improve indicators need to be integrated into the plan.

- h. Supports new investments or funding additional to on-going/planned MDB investments? The IP considers involvement of MDB's only in the component related to the program for supporting the development of grid connected RE projects. There is no description within the IP on the on-going/planned investments by MDB's, therefore it is not possible to conclude on how the proposed plan supports new investments from MDB's.
- i. Accounts for institutional arrangements and coordination? The IP describes the structure of the Secretariat of Finance and its associated administrative offices including the denominated UGEFCC and the UAP. It also mentions that an SREP Executive Committee has been established by Decree (including public and private sector participants). The IP falls short in describing the actual arrangement for executing coordination amongst the myriad of stakeholders involved in a multi dimensional activity such as the one proposed, and the capacity of the proposed key organizational elements is assumed rather than discussed from the perspective of the implementation of the SREP supported program.
- j. Promotes poverty alleviation? The IP addresses poverty alleviation aspects for both components of the plan. At the grid connected level, it presupposes that the IP will contribute to RE related PYMES development, and at the rural development level there will be increased fluxes of resources for poverty reduction related infrastructures, although those are not clearly demonstrated within the plan.
- k. Considers cost effectiveness of investments? Except for the discussion on the PAPER component of the IP (which is based on the on-going activities related to RE project development for grid connected in Honduras, which is likely to be responsive to cost effectiveness from small scale RE technologies as suppliers of electricity to the grid), there is no discussion on cost effectiveness of investments in the case of the rural off-grid component of the IP. An important issue that is not discussed is how the provision of concessional financing to project developers can contribute to lower the long term financing costs of project financing after the execution of the proposed plan, especially when MDB support is not a long term guarantee for scaling up and the local/international financing communities will need to fill in the financing needs required for scaling up (and taking into account the effect of country risk ratings).

6. Part II: Compliance with the investment criteria or business model of the relevant program

According to the evaluation criteria for the technical review, the proposed Investment Plan:

- a. Catalyses increased investments in renewable energy in total investment? Current investment baselines for either component 2 and 3 of the IP are not discussed in the document, therefore making difficult to assess if SREP funds will sustain the attraction of other levels of financing and lead to replication. In the on-grid case, it is known that 49 projects have standing PPAs and are seeking financing, but no information apart from the discussion of the perceived barriers is submitted on the baseline of current success in financing terms. It will be very important to discuss the depth of the local banking community as well as the existing equity capacity in leveraging the proposed MDB financial package in order to properly assess the catalytic role of the SREP funding. At the level of the off-grid component of the IP, there is no indication on how the ICAs and private developers contributions will create the sustain investment required for scaling up such component. Since the IP does not call for the attraction of

any government financing, perhaps it is necessary to discuss how different scaling up risks will be managed through the implementation of the program, especially since the existing model is that of a single electricity buyer in the market.

- b. Creates an enabling environment? The IP states the commitment of the country for promoting RE and energy access goals. The creation of an enabling environment is mostly dealt with in the normative and regulatory component of the IP. Several types of activities are envisioned as necessary, mostly all of them related to the on grid component of the program; leaving-off a sense of consideration for the creation of enabling environments for off-grid catalytic action. One issue to take notice is that the IP calls for the enacting of organizational transformations at the institutional level (ENEE and other institutions), but lacks the commitment on how those if required are going to be financed and implemented.
- c. Increases energy access? It is anticipated that component 3 of the IP is clearly link to indicators of increased energy access, although the IP lacks to establish clear targets for its contribution and how that will modify the existing baseline. Component 2 of the IP assumes a contribution to increase energy access and proposes to monitor it, but in reality the PAPER component description only deals with financing availability for project development and collateral financing for transmission for the off-take of RE capacity, being silent on the issue of mobilization of grid extension and distribution interconnection programs and fees.
- d. Implementing capacities? The IP describes in different sections and at different depths the implementation capacity, perhaps it will be useful to have a more coherent and succinct description on the organizational mode, roles and responsibilities, and expected decision making interactions. The planned implementation approach including relevant offices at the Secretariat of Finance and the existence of an in-country SREP Steering Committee legally sanctioned by decree contributes to foster an enabling environment for stakeholder participation.
- e. Improves the long term economic viability of the renewable energy sector? For the on grid RE, long term viability is related to how sound energy markets are created and how private power producers act within the enabling policy, regulatory and financing environment. The on-going single electricity buyer market model as well as the bidding procedures assures the environment for the targeted 49 projects with a 250+ MW capacity, but longer term viability of the sector merits a discussion in the IP on how sustainable is it to continue once the MDB lending program is achieved. As per component 3 related to off grid energy service provision, further discussion may be needed on the issue of long term viability with an scenario of diminishing foreign aid and no commitments from the central government to foster public-private partnerships envisaged.
- f. Transformative impact? The proposed IP considers transformative impacts in several dimensions mostly related to national scale outcomes of mobilization of key stakeholders in both components, with consideration given to the delivery of SREP aims and objectives. The transformative impact of the IP is more clearly addressed on the side of the grid connected component of the plan, where there is a model and an approach more clearly established and directly linked to the continuation of the single buyer model and promotion of access to financing by the MDBs in conjunction with the local banking community. The transformative impact discussion on the off-grid component of the program is not so well established in the proposed investment plan and merits further discussion. There is an asymmetry of information related to the implementation timeline for the regulatory as well as for the off-grid component of the

IP; since only the on grid connected implementation timeline is presented; creating a critical problem for the evaluation on transformative impacts.

7. **Part III: Recommendations**

- The IP document was received with sections both written in Spanish and English, it is recommended that the text should be standardized to a one language.
- The IP's Executive Summary will benefit with the inclusion of relevant information on the targeted program components, the overall proposed investment plan and the expected results framework (incorporating clearer baselines and targets of the program).
- The IP document includes a presentation of risk categories associated to the implementation of the program. The risk perceptions are not clearly supported and do not provide the reader with transparent valuation of the specific risks. With respect to environmental risks, it is stated that the strengthening of SINEIA will be a way of mitigating environmental risks, but no inclusion of such strengthening activities is included in the description of activities under any of the 3 program components submitted to SREP. With respect to social risks associated to the program, it is said that the mitigation activities will include training, promotional campaigns, socialization of stakeholder participations; it is recommended for the IP to call for the enactment of codes of conduct for the selection of beneficiary projects as well as the incorporation of criteria on social responsibility for project development. With respect to financial risks, the IP assumes the depth of participation of the local banking community but does not provide confirming evidence of such participation so it is recommended to expand on such issues and mitigating actions in case the risk level increases due to general economic climate changes in the country. Taking into account the overall climate vulnerability of the country, it is suggested in this evaluation that the proponents should give consideration to climate vulnerability risks and how to mitigate those perceived risks if considered relevant.
- The IP could benefit from an improved description of the proposed structure for implementation of the program, description of specific roles and responsibilities of participating agencies and how leveraging of resource approaches are to be implemented. The existence of the Steering Committee for SREP implementation is mentioned in the text but is not only until an annex that there is full description of its membership, perhaps a description in the main text on the charter, membership, expected roles of the different players would contribute to enhance the implementation approach of the plan.
- Component 1 of the proposed IP does not discuss any enabling environment required for the scaling up of off-grid contributions from RE technologies and concentrates on the promotion of policies and institutions required for on-grid applications; issue that requires further discussion in the context and barrier identification sections of the document. Both under the description of perceived risks as well as within Annex 5, there is mention to the need to support and enact organizational changes that are required for RE scaling up in the country, but there is no indicator in the monitoring framework linked to such an important endeavor.
- The poverty issue is an important issue to be acknowledged when discussing the implementation of innovative solutions for off-grid RE based energy service provision and as such should be discussed within the scope of component 3 of the off grid component of the IP; the IP could benefit from a more in depth discussion on the existing in-country lessons learned and model approaches to be used in the promotion

and scaling up of this component (specially in public-private models for energy service provision in poor rural areas). The IP calls for the selection of appropriate and successful models in this component but it fails short from providing an ex-ante route map of the direction it intends to take (taking into account that the contributions and leverage only comes from the private sector and from ICAs).

- A couple of issues seem to be needing further discussion and justification in the proposed plan with respect to component 2 related to on-grid connected RE technologies. The first one relates to the expressed need to use SREP resources for leveraging resources for extending transmission and distribution capacity for RE off-take by the utility, but no context information is provided in the IP on this subject making it very difficult to assess the logical framework for this intervention (understanding that the intended applications involve small scale renewable energy projects, the IP could benefit from a more detailed description on whether the intended approach will favor distributed/dispersed approaches for off-take or high voltage transmission line deployment). The second issue relates to the perceived need for concessional and non-reimbursing capital in order to jumpstart catalytic financing for on-grid project development and complement risk profiles of the local banking community; this issue is assumed in the document but there is no presentation and discussion of the issue (taking into account that nearly 30% of the SREP funds are to be allocated to the investment facility, the IP could benefit from a more detailed discussion of the context situation on the lending by the local banking community as well as on plans by the MDB community in the country).
- The IP could benefit by presenting implementation chronograms for all 3 components of the SREP program, and not only the one related to the PAPEREC component; otherwise it is difficult to see the interactions and links between activities that are relevant to the achievement of the implementation framework.
- The monitoring and evaluation section of the IP presents a table including a framework for the monitoring of the program. Such table could be restructured in order to start with the presentation of the project outcomes and output, followed by the monitoring framework of the catalytic replication and then the transformative impact of the program. The IP does not include a description of the selected indicators for monitoring and there are several of those that do not come easy to figure out starting from the indicators that are presented for each of the components of the program that are presented in the relevant annexes 5 to 7. The monitoring and evaluation framework includes very few indicators that can be actually linked to the catalytic and replication components of the off-grid program. Several indicators required for the establishment of the baselines are not clearly defined and there is connectivity in the document to a schedule for the determinations and selection of them.
- The IP proposed is clearly supportive of action aimed at scaling up RE technologies in the country, although there is a tendency for it to be based on expected and anticipated outcomes. The IP document may benefit for more in depth discussion on implementation approaches that will create the right signals for the financing of on-grid projects as well as on how the program could scale up the off-grid components. The discussion of models for implementation must be done early-on in order not to jeopardize the overall outcome of the SREP program.
- Scaling up and replication contributions of each of the components of the plan need to be further discussed and emphasized in the document, in order to substantiate the road map ahead to the achievement of the country's aspirations that are at the core value of this intervention.