

Honduras



THE SITUATION

Over the past two decades access to the electrical grid in Honduras more than doubled, but around 20% of the country still lacks access to grid coverage. In the absence of grid connectivity, firewood is used as the key source of fuel. This is particularly true in rural areas, where firewood accounts for over 80% of household primary energy supply. But dependence on firewood entails a number of negative social, economic, and ecological consequences. In addition to the real and potential adverse implications of heavy reliance on firewood, Honduras' heavy dependence on imported fossil fuels is a similarly pressing energy and economic issue. In 2008 Honduras spent around 14% of GDP on hydrocarbons. Moreover, from 2001 to 2010, Honduras' energy bill tripled, indicating the economic strain and volatility inherent in Honduras' present energy regime.

The Honduran government recognizes the potential of renewable energy technologies to improve industrial, commercial, and residential access to affordable grid-connected power, and is eager to exploit these opportunities to enhance the sustainability of rural energy services. Two of the government's main priorities are to scale-up access to electricity services in rural areas, and to promote rural access to clean energy cooking solutions. By 2022 the government aims to reverse the present fossil fuel and renewable energy ratio to achieve 60% renewables and 40% fossil fuels. Yet despite the government's commitment to increasing the share of renewable energy in the country's energy mix, gaps in regulation and licensing guidelines, lacking capacity of project developers, weak access to long term financing, and insufficient transmission infrastructure to accommodate intermittent renewables continue to inhibit the large scale implementation of Honduras' low carbon objectives.

THE TRANSFORMATION

Honduras is tapping US\$30 million in grant and near-zero interest credit financing from the Scaling-Up Renewable Energy Program in Low-Income Countries (SREP) for a diverse programmatic investment plan aimed at creating an enabling environment for Honduras' renewable energy sector. Specific activities financed under Honduras' SREP investment plan include a grid-connected renewable energy program, a rural energization strategy for accelerating rural electrification and promoting access to improved and appropriate cooking technologies, and a policy and regulatory reform initiative intended to improve the conditions for the development of Honduras' renewable energy sector. Designed under the leadership of the Honduran government in coordination with the Inter-American Development Bank (IDB), members of the World Bank Group (IBRD, IFC), other development partners, and key Honduran stakeholders, Honduras' SREP investment plan is expected to leverage over US\$150 million in additional co-financing.

HONDURAS QUICK FACTS

1990 access to grid coverage:	39%
2010 access to grid coverage:	81%
2010 thermal-based energy supply:	52%
2022 renewable; thermal energy target:	60%; 40%
2009 imported energy:	42%

HONDURAS SREP QUICK FACTS

SREP financing:	US\$30 million
Expected to leverage:	US\$150.6 million

EXPECTED SREP IMPACT: Assessing the co-benefits of Honduras' SREP investments

Investments in grid-connected renewable energy will reduce Honduras' dependence on imported fossil fuels, reduce the country's vulnerability to market shocks and free up government resources for alternative development priorities. Shifting from reliance on traditional fossil fuel energy generation to renewables will reduce local pollutant and greenhouse gas (GHG) emissions, improving quality of life and lessening the drivers of climate change. Furthermore, investments in renewable energy have the potential to unlock sectoral potential for job creation and the formation of new supporting sectors in the economy, as well as support capacity development for further engagement in the renewable energy sector among participating financial institutions.

Benefits to local communities from Honduras' SREP investments in rural energization have the potential to take several forms, including improved standards of health and education through greater access to basic energy services. Honduras' SREP rural energization investments are also expected to have a positive impact on gender equality, as improved cook stoves and improved basic energy services will enable women to spend less time collecting firewood, improving health and education opportunities and reducing poverty, especially among women and other traditionally disadvantaged social groups.

HONDURAS SREP INVESTMENT FOCUS AREAS

GRID-CONNECTED RENEWABLES

RATIONALE: SREP financing will support a pilot portfolio of projects designed to reduce financial, risk, capacity, and infrastructure barriers to development of the renewable energy market by providing training and experience for developers, financial institutions, communities, and other key market stakeholders.

FINANCING: US\$16.8 million SREP financing is expected to leverage US\$135 million in additional co-financing from the government, IDB, other development partners, and the private sector for one IFC-implemented and two distinct IDB-implemented projects.

EXPECTED RESULTS:

- Provide technical assistance, and support for the preparation of an initial portfolio of projects, and financing for the creation of 60 MW new renewable energy generation capacity and the 207 kilometer expansion of transmission infrastructure to enable the electrification of rural areas that are currently off the grid.
- Establish a financing facility that provides temporary financial support for multilateral development bank (MDB) renewable energy, transmission, and distribution infrastructure projects.
- Facilitate the transfer of knowledge to developers and local banks to bridge the gap between projects and their financing.
- Create employment opportunities and promote competitiveness of firms in rural areas, promote gender equality; reduce emissions and associated negative economic, social and environmental impacts.

SUSTAINABLE RURAL ENERGY

RATIONALE: SREP financing will support the development of sustainable models of large-scale improvements to rural energy access based on renewable energy and distribution of improved cook stoves to improve the quality of life of previously energy-isolated residents, strengthen energy security, and reduce pollution and pressure on natural resources.

FINANCING: US\$12.1 million SREP financing is expected to leverage US\$15.3 million in additional co-financing from the government, IDB, and private sector, for two distinct IBRD and IDB-implemented projects.

EXPECTED RESULTS:

- Create an enabling environment for the scaled-up replication of renewable energy through the development of business models and appropriate legal and regulatory frameworks.
- Provide for improved access to electricity for 100,000 people, improving quality of living conditions for previously energy-isolated poor communities.
- Promote access to cook stoves for 50,000 households, reducing consumption and costs of firewood supply for project beneficiaries by 60%.
- Enhance health and access to education for women and children by avoiding exposure to harmful gases from inefficient burning of firewood in traditional stoves.
- Reduce GHG emissions and promote sustainable livelihoods.

REGULATORY AND POLICY FRAMEWORKS

RATIONALE: SREP financing will support the development and implementation of policies, laws, regulations, rules, standards and incentive schemes aimed at improving the integration of renewable energy in the energy sector by reducing risks and transaction costs and encouraging investment in renewable energy.

FINANCING: US\$0.9 million SREP financing is expected to leverage US\$0.3 million in additional co-financing from the government and other development partners for this IDB-implemented project.

EXPECTED RESULTS:

- Support the institutional capacity development of government nongovernment agencies for policy making, planning, regulation, and supervision of the renewable energy sector, including its linkages with broader low carbon development strategies.
- Provide support for a long-term energy policy, improved tariff models, technical standards, and guidelines to improve the predictability of the evolution of the sector, and to enable better sectoral investment planning.
- Support regulation of promotion laws and development of appropriate standards and specifications for specific renewable energy technologies to reduce technological risk perceptions and create incentives for effective development of each.

