



TERMS OF REFERENCE

JOINT MISSION

**Scaling-up Renewable Energy in
Low-Income Countries Program (SREP)**

HONDURAS

AUGUST 28TH TO SEPTEMBER 2ND, 2011

**Climate Investment Funds (CIF)
Strategic Climate Fund (SCF)**



I - Background

1. The share of renewable energy in Honduras' electricity generation has been declining over the course of the last decades. Currently the national grid relies on fossil-fuel fired power plants for more than 70% of its electricity generation. Since all fossil fuels are imported, this dependence represents a growing burden for the country's balance of payments, and a growing exposure to fossil fuel price volatility risks. Honduras is in addition committed to contributing to the global fight against climate change by reducing its greenhouse gas emissions. Finally, the country's government considers energy access as an important part of its rural development policy, and renewable energy sources need to play an increasingly important role in supplying this energy, especially for communities located far away from the national grid. For all these reasons, Honduras has placed the development of renewable energy as one of its top priorities, and has made important progress in the development of renewable energy policies.

2. On September 24th, 2009, the public utility (ENEE) announced an international tender for 250MW of renewable energy-based generation by independent power producers. The winning hydropower, wind, biomass, and geothermal power projects were announced in April 2010 by the Ministry of Environment and Natural Resources (SERNA) with a total installed capacity of nearly 700 MW, much more than the original target in the tendering. These projects are expected to generate 2,000 direct jobs, foster municipal development, generate an annual flow of nearly US\$1M in taxes to the national government, as well as a number of additional benefits such as community development projects and watershed protection -in the case of hydropower projects. Most of these projects, however, face various risks to materialize, mainly due to a lack of access to appropriately structured finance.

3. In addition to this tender-based system, the country's Renewable Energy Act enacted in 2007 enables small-scale renewable energy projects to benefit from a premium above the annual short term marginal cost, and the resulting tariff is fixed during the projects' lifetime.

4. In its quest to mobilize resources to support renewable energy projects, and, in general, the country's renewable energy policies, Honduras expressed its strong interest in participating in SREP and was selected as one of SREP's first six pilot countries. Honduras is eligible to receive up to US\$30M for the first phase of SREP.

5. The SREP objectives are consistent with national plans to promote renewable energy development. With SREP resources, Honduras seeks to:

- Develop a first five-year Investment Plan for renewable energy that fosters investment in this sector
- Improve the enabling policy and financial environment in order to increase private sector investment in the renewable energy sector
- Improve the energy sector legal and regulatory framework
- Increase access to energy, employment opportunities and social benefits in isolated communities, including the gender dimension
- Generate and disseminate experience and lessons learned

- Strengthen program coordination, monitoring, and evaluation

6. The GoH also seeks to build on the existing collaboration with multilateral and bilateral development partners, including The World Bank Group (WB), Inter-American Development Bank (IDB), and Central American Bank for Economic Integration (CABEI), etc. These institutions are currently supporting Honduras in several energy sector activities, including the support to the national utility (ENEE) to improve the technical, financial, and operational efficiency of the power system, and rural electrification.

II - Preparatory Activities

7. The GoH, supported by the MDBs, has undertaken a number of preparatory activities, including: (i) participation in Washington in the CIF Pilot Country Meeting in November 2010, (ii) a scoping mission on February 2-4, 2011, (iii) the request of SREP advance funds for preparation, (iv) the creation of a National Governing Committee for Preparation of SREP and a climate change unit within the Ministry of Finance to lead SREP preparation and implementation, (v) participation in the CIF Partnership Forum in South Africa in June 2011; and (vi) a technical mission on July 20-22, 2011.

8. In November 2010, three members of the GoH headed by the Vice Minister of Finance attended the CIF Pilot Country Meeting in Washington. The members of the delegation, supported by the CIF unit and World Bank, participated in many meetings to get a better understanding and increase their ownership of the SREP program and made a presentation on the energy sector's issues and challenges and areas for potential support. During the visit, it was agreed that the GoH would launch the SREP preparation as soon as possible with assistance from the MDBs.

9. A Scoping Mission was undertaken by the GoH, IDB, WB, and IFC on February 2 - 4, 2011. During the mission, the MDBs met with high level government officials (including the Vice President, Ministers of Finance and SERNA, etc) and other stakeholders. The mission sensitized a broad audience on the SREP program, including its objectives, programming guideline and operational procedures. The mission had constructive exchanges with the technical agencies, bilateral institutions, private sector and civil society on energy sector policy and regulations, renewable energy development policy, institutional capacity building, project financing, etc. The mission identified the need to take stock of the past, ongoing and planned activities and investments in renewable energy. The Vice President of the country emphasized the need to move forward the SREP preparation as soon as possible given the country's pressing needs and priorities. At the end of this mission a list of next steps and a work plan were agreed to lay the foundation for the preparation of the SREP investment plan (IP). It was also agreed that the GoH would request SREP advance funds for IP preparation.

10. On March 24, 2011, the GoH requested an SREP IP preparation grant for an amount of US\$375,000 and asked the IDB to channel the resources. This request was approved by the SREP Subcommittee on March 31st, 2011. The Government prepared the TORs for the consultants to be hired, and the IDB is currently working on its internal processes to

transfer the resources to the government. Meanwhile, the GoH has been trying to mobilize its in-house human and financial resources to advance the preparatory activities.

11. The consultants to be hired include an SREP Coordinator, a Finance Specialist and a consultant/consulting firm that will assist in the preparation of the IP and subsequently on the projects and programs included in the IP. The GoH is in the process of hiring these consultants and the process has been slowed down due to the government's restriction on consultants' salary and lack of financial resources.

12. As agreed during the Scoping Mission, the GoH has created an SREP governing committee consisting of Ministry of the Presidency (SDP) Ministry of Finance (SEFIN), Ministry of Natural Resources and Environment (SERNA), National Electricity Company (ENEE), National Energy Commission (CNE) and private sector representatives. This Committee takes the final decisions in technical and financial matters related to the preparation and implementation of the SREP IP.

13. The GoH has also made progress in taking stock of energy sector policy and regulations and investment projects registered with the government. A technical working group has also been formed to further advance technical analysis and inputs to the IP. The GoH has carried out a series of technical meetings with governmental and non-governmental organizations to take stock of ongoing and planned activities related to renewable energy and biomass use, including household energy use that could lead to significant benefits to women and the environment. These meetings have included donors and private sector organizations such as the Honduran Association of Banking Institutions (AHIBA) in order to define selection criteria and mobilize additional resources for SREP-supported projects and programs.

14. The GoH reported its progress in preparation of the SREP program during the CIF Partnership Forum that was held in June 2011 in Cape Town, South Africa. Honduras was selected as member of the SREP Trust-Fund Subcommittee and co-chair of the Subcommittee.

15. A technical mission was carried out from July 20-22, 2011 by the GoH and the joint MDB team. The objective was to advance the implementation of various activities related to the preparation of the investment plan and agree on the next steps, including the timing and objectives of the joint mission. The GoH reconfirmed its intention to submit the IP for SREP approval in its November 2011 session.

III - Joint Mission Objectives

16. The main objective of the SREP Honduras Joint Mission is to support the GoH in the preparation of its IP. The specific objectives are: (i) to finish the consultation process and engage key stakeholders in the design of SREP in Honduras; (ii) to review the draft SREP IP; (iii) to define technical assistance needs for the development of SREP, and (iv) to prepare an aide-memoire that describes the outcomes of the meetings and that sets the next steps for concluding the IP.

IV - Joint Mission Dates

17. The proposed dates for the Joint Mission are from August 28th to September 2nd, 2011.

V - Joint Mission Coordination and Focal Points

18. The Joint Mission will be coordinated by GoH, through SEFIN and SERNA which serves as technical support unit for the SREP.

GoH focal points:

Evelyn Lizeth BAUTISTA GUEVARA
Subsecretaria de Crédito e Inversión Pública
Secretaría de Estado en el Despacho de Finanzas

email: ebautista@sefin.gob.hn

Manuel Manzanares
Director General de Energía
Secretaría de Estado en los Despachos de Recursos Naturales y Ambiente

email: redimanzanares@yahoo.com

MDB Focal Points:

IDB: Claudio ALATORRE FRENK

email: calatorre@iadb.org

WB: Xiaoping WANG/Christophe DE GOUVELLO

email: xwang3@worldbank.org/
cdegouvello@worldbank.org

IFC: Javier POSAS

email: JPosas@ifc.org

VI - Joint Mission Activities

19. A preliminary version of the IP will be presented to the MDBs and other development partners during the Joint Mission.

20. During the mission, the GoH and the MDBs will identify priorities and linkages between SREP and other initiatives (including possible joint investments by the MDBs and other institutions). The identification of strategic SREP investments will be undertaken in a participatory way, so that all stakeholders have the opportunity to voice their comments on the IP draft and share their points of view about the best way to direct SREP resources

VII - Expected results

21. The main expected results at the end of the Joint Mission are:

- SREP investment priorities discussed with all relevant stakeholders
- A draft IP strengthened by the contributions/feedback of the different stakeholders

- An aide-memoire that describes the main activities carried out during the Joint Mission, conclusions or agreements, recommendations, and next steps.

VIII - Joint Mission Consultations

22. The Joint Mission will include meetings with the main stakeholders interested in SREP. These meetings will take place in Tegucigalpa, Honduras. The main stakeholders include governmental agencies, national institutions, development partners, non-governmental organizations, civil society, and the private sector.

23. Consultations with different stakeholders started in February 2011 during the Scoping Mission. A list of the stakeholders involved in the consultations is attached (this list is illustrative but not exhaustive). Such consultations have continued throughout the preparation of the Investment Plan as mentioned in Section II above. During the Joint Mission, such consultations will place particular emphasis on the draft investment plan, including its content and potential for effective implementation. The objectives of the consultation are not only to improve/strengthen the IP per se, but also to present more opportunities for discussions and debates on investment priorities in renewable energy and to mobilize co-financing resources.

24. It is worth mentioning that one of the issues highlighted during the consultation is monitoring and evaluation (M&E) of the results and impacts of the SREP program. The M&E strategy and methodology will be an integral part of the IP being developed.

IX – Joint Mission Composition

IDB:

Claudio Alatorre, senior climate change specialist, co-mission leader
 Javier Cuervo, senior energy specialist
 Enrico Pinali, financial markets specialist
 Jacobo De Leon, financial markets specialist
 Jessica Thompson, private sector expert
 Olivia Armenta, Environment and social safeguards specialist
 Gender specialist (TBD)

WB:

Senior energy specialist, co-mission leader
 CIF/SREP coordinator
 Senior renewable energy specialist
 Senior infrastructure finance specialist
 Senior operations officer
 Country Manager
 M&E specialist

IFC:

Senior Investment Officer, Infrastructure, co-mission leader
 Investment Officer

Senior Operations Officer, Renewable Energy
Renewable Energy Specialist

X – Preliminary Joint Mission Agenda

(Meeting venues to be defined)

Sunday, August 28, 2011

Arrival of MDB teams to Tegucigalpa

Monday, August 29, 2011

9:30 am – 12:30 pm Opening meeting with SDP, SEFIN, SERNA, CNE, ENEE, IDB, WB and IFC

12:30 pm – 1:30 pm Lunch

1:45 pm – 5:00 pm Meeting with the GoH (technical teams from SDP, SEFIN, SERNA, CNE and ENEE) and MDBs, Presentation by GoH about progress in the creation of the Governing Committee and the drafting of the Investment Plan

Tuesday, August 30, 2011

9:00 am – 10:30 am Meeting with development agencies that are working in renewable energy-related issues (UNDP, GIZ, USAID, BCIE, JICA).

11:00 am – 12:30 pm Meeting with private sector representatives (including COHEP, AHPPER, and AHIBA)

1:00 pm – 2:30 pm Lunch

3:00 pm – 4:00 pm Informative session about the SREP Program by the GoH with representatives from Civil Society Organizations¹.

Wednesday, August 31, 2011

9:00 am – 12:00 pm Workshop with the GoH (technical teams from SDP, SEFIN, SERNA, CNE, ENEE), private sector (AHPPER) and MDBs. Discussion about the Investment Plan and gender issues

12:30 pm – 1:30 pm Lunch

¹ Including: Red Nacional de Comunidades Afectadas por la Minería; Cáritas; Fundambiente; Coalición Patriótica; FOSDEH; SITRAENEE; ASONOG; ICADE; ACI (Agencias de Cooperación Internacional); Ayuda en Acción; Espacio Regional de Occidente; Popul Nah Tun; Movimiento Ambientalista de Olancho; and AJASA.

1:40 pm – 5:00 pm Workshop with the GoH (technical teams from SDP, SEFIN, SERNA, CNE, ENEE), private sector (AHPPER) and MDBs. Discussion about the Investment Plan, and coordination, monitoring and evaluation issues

Thursday, September 1, 2011

9:00 am – 12:00 pm Workshop with the GoH (technical teams from SDP, SEFIN, SERNA, CNE, ENEE), private sector (AHPPER) and MDBs. Discussion about the Investment Plan, drafting of aide-memoire, and definition of next steps.

12:30 pm – 1:30 pm Lunch

1:40 pm – 5:00 pm Closing meeting and signature of aide memoire (SDP, SEFIN, SERNA, CNE, ENEE, IDB, WB, IFC)

Friday, September 2, 2011

Departure of MDB teams.

XI - Investment Plan Timeline

The GoH intends that the Investment Plan is discussed during the SREP Trust-Fund Subcommittee meeting to be held in November 2011. The following timeline is foreseen to reach this objective:

- Finalization of final draft: September 7
- Public consultations, external revision, and formal revision by MDBs: September 8-19
- Finalization of final version of Investment Plan, incorporating all comments: September 20-October 4
- Submission of Investment Plan to SREP Subcommittee: October 5
- SREP Subcommittee meeting in Washington, DC: November 1st

Annex

Illustrative List of Stakeholders for Consultation

1. Ministry of Presidency (SDP)
2. Secretariat of Finance (SEFIN)
3. Secretariat of Natural Resources and Environment (SERNA)
4. National Energy Commission (CNE)
5. National Electric Energy Company (ENEE)
6. Secretariat of Planning (SEPLAN)
7. Honduran Private Company Council (COHEP)
8. Honduran Banking Institution Association (AHIBA)
9. Honduran Small Renewable Energy Producers Association (AHPPER)
10. Central America Economic Development Bank (CABEI)
11. JICA Honduras
12. USAID
13. German Embassy in Honduras
14. IMF
15. UNDP
16. European Union
17. Honduran Integrated Development Foundation (UNDEIH)
18. CSOs