

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HONDURAS

SUPPORT FOR THE NATIONAL ELECTRICITY TRANSMISSION PROGRAM

(HO-L1186)

LOAN PROPOSAL

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<p>REQUIRED</p> <ol style="list-style-type: none"> 1. Multiyear execution plan and annual work plan 2. Monitoring and evaluation plan 3. Environmental and Social Management Report 4. Procurement plan <p>OPTIONAL</p> <ol style="list-style-type: none"> 1. Project economic analysis 2. Environmental and social management framework 3. Analysis of compliance with the Public Utilities Policy 4. Technical profile of the project sample: San Pedro Sula Sur–San Buenaventura transmission line 5. Technical profile of the project sample: Expansion of Láinez and Miraflores substations and construction of 5 km transmission line 6. Draft program Operating Regulations 7. Proposed gender intervention 8. Analysis of contribution to competitive regional integration 9. Disbursement plan by component and output 10. Institutional capacity analysis of ENEE 11. Community awareness report: San Pedro Sula Sur–San Buenaventura transmission line 12. Community awareness report: Miraflores substation 13. Community awareness report: Láinez substation 14. Community awareness report: Láinez-Miraflores substation 15. Safeguard Policy Filter and Safeguard Screening Form

ABBREVIATIONS

CO ₂	Carbon dioxide
CREE	Comisión Reguladora de Energía Eléctrica [Electric Power Regulatory Commission]
EBITDA	Earnings before interest, taxes, depreciation, and amortization
ENEE	Empresa Nacional de Energía Eléctrica [National Electric Power Company]
ESMF	Environmental and social management framework
ESMP	Environmental and social management plan
ESMR	Environmental and social management report
IRR	Internal rate of return
INDC	Intended Nationally Determined Contribution
LGIE	Ley General de la Industria Eléctrica [General Law on the Electricity Industry]
LIBOR	London Interbank Offered Rate
MER	Mercado Eléctrico Regional [Regional Electricity Market]
N/A	Not applicable
NCRE	Nonconventional renewable energy
NPV	Net present value
PCU	Program coordination unit
SBV	San Buenaventura
SIEPAC	Sistema de Interconexión Eléctrica de los Países de América Central [Central American Electric Interconnection System]
SIN	Sistema Interconectado Nacional [National Interconnected System]
SPSS	San Pedro Sula Sur
SREP	Scaling Up Renewable Energy Program in Low-income Countries
STN	Sistema de Transmisión Nacional [National Transmission System]

PROJECT SUMMARY
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Financial Terms and Conditions					
Borrower: Republic of Honduras	Source	%	Amount (US\$)	%	
	IDB (Ordinary Capital)	60%	90,000,000	54.8	
Executing agency: National Electric Power Company (ENEE)	IDB (concessional Ordinary Capital)	40%	60,000,000	36.6	
	SREP		5,000,000	3.1	
	Local		9,148,474	5.6	
	Total		100%	164,148,474	100.0
	Regular Ordinary Capital (Flexible Financing Facility) ^(a)		Concessional Ordinary Capital		SREP ^(c)
Amortization period:	25 years	40 years		40 years	
Disbursement period:	5 years				
Grace period:	5.5 years	40 years		10.5 years	
Interest rate:	LIBOR-based	0.25%			
Service fee:	N/A	N/A		0.1%	
Credit fee:	(b)	N/A		N/A	
Inspection and supervision fee:	(b)	N/A		N/A	
Weighted average life:	15.25 years	N/A		N/A	
Approval currency:	U.S. dollar				
Project at a Glance					
Project objective: The general objective is to strengthen the National Transmission System (STN) by financing priority works in the ENEE investment plan. The specific objectives are to: (i) build capacity for interconnection with the Regional Electricity Market (MER), in order to make full use of the Central American Electric Interconnection System (SIEPAC); (ii) improve the ENEE's financial sustainability and institutional capacity; (iii) improve transmission quality by making electricity service more reliable; and (iv) facilitate transport of electricity generated with renewable energy projects to the STN.					
Special conditions precedent to the first disbursement of the loan proceeds: (i) the program Operations Manual has been approved on the terms previously agreed upon with the Bank (see paragraph 3.6); (ii) the program coordination unit (PCU) retains the current core staffing level and supplements it by engaging the consultants as described (see paragraph 2.15) and the social-sector specialist described in the environmental and social management report (ESMR) (see paragraph 3.2); and (iii) see the environmental and social conditions in the ESMR , as well as the fiduciary conditions in Annex III.					
Special contractual conditions for execution: See environmental and social conditions in the ESMR .					
Exceptions to Bank policies: None.					
Strategic Alignment					
Challenges: ^(d)	SI <input checked="" type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>		
Crosscutting themes: ^(e)	GD <input checked="" type="checkbox"/>	CC <input checked="" type="checkbox"/>	IC <input checked="" type="checkbox"/>		

^(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. When reviewing such requests, the Bank will take into account operational and risk management considerations, prevailing market conditions, and the degree of concessionality of the loan in accordance with relevant applicable Bank policies in force.

^(b) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

^(c) The Scaling Up Renewable Energy Program in Low-income Countries (SREP) of the Climate Investment Funds' Strategic Climate Fund (with resources of the latter). The Strategic Climate Fund was approved in document GN-2604-3, and its Financial Procedures Agreement was signed with the World Bank on 17 February 2011. In accordance with the SREP Financing Modalities, the first 20 quarterly amortization payments will be for 1% of the outstanding balance whereas the next 40 quarterly amortization payments will be for 2% of the outstanding balance.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, rationale

- 1.1 **Legal and institutional framework of the electricity sector.** The sector's legal and regulatory framework is established in the General Law on the Electricity Industry (LGIE), which has been in force since July 2014. The LGIE is aimed at strengthening the sector's institutional, regulatory, and operational capacities; making it more financially sustainable; and reducing its fiscal impact. Since the LGIE entered into force, the Honduran government has pursued a reform process (see paragraph 1.16) to establish an institutional structure that includes an Energy Department responsible for strategic planning and policy-making in the energy sector, the Electric Power Regulatory Commission (CREE) as the regulatory body responsible for developing regulations to modernize the sector and develop the electricity market; and a system operator responsible for ensuring continuity and safety in the supply of electricity, proper coordination of the generation and transmission systems at least cost, and review and approval of the transmission expansion plan.
- 1.2 The National Electric Power Company (ENEE) has been restructured and modernized as part of the reform process. The ENEE was split into business units by forming Grupo ENEE, which consists of ENEE Holding (a holding company) and generation, transmission, and distribution companies. The reform process led to development and implementation of a rate schedule to recover costs from the electricity industry's supply chain, target subsidies, and implement good corporate practices to attract investment without resorting to financial incentives that have weakened the ENEE's finances in the past. As a result of this process, the contribution of the ENEE to the consolidated public-sector deficit as a percentage of GDP has been reduced from 1.8% in 2013 to 0.6% in 2017, and the electricity sector's loss rate has been trimmed from 31.3% in 2013 to 27.3%¹ in 2017 (trimmed with the participation of the private sector). The LGIE is aimed at the adoption of energy policies aligned with diversification of the energy matrix through the use of renewable energy, efficient energy usage, and increased participation of Honduras in the Regional Electricity Market (MER).
- 1.3 As part of the 2016 reforms, an investor-operator was engaged to reduce distribution losses. With regard to the transmission sector, although two international public bidding processes were held between 2013 and 2015 to select investor-operators, none from the private sector presented bids, since the reforms had not yet been consolidated and there was no regulatory framework in place to inspire the confidence necessary to attract investment to the sector. Consequently, the Honduran government decided not to proceed with engaging an investor-operator in the transmission sector, owing to its potential for increasing energy generation costs. Instead, it opted to postpone that decision until progress had been made in the program to reduce nontechnical losses, and agreed to finance priority and strategic transmission works at the national and/or regional levels.
- 1.4 The ENEE owns nearly all transmission and distribution systems in Honduras, as well as 15.4% of the country's installed capacity for electricity generation. The private

¹ The 4% reduction in losses was achieved in the first year of the contract with Empresa Energía Honduras. Report by the independent consultant Manitoba Hydro International.

sector owns 79.1% of generation capacity by virtue of power purchase agreements with the ENEE. As a result of the international competitive bidding process pursued by the Public-Private Partnership Promotion Agency, the investor and private operator of the distribution system—Empresa Energía Honduras, a Colombian-Honduran consortium that has managed the ENEE's assets since August 2016—was selected in the distribution sector.

- 1.5 **Diversification of the electricity matrix.** Honduras is heavily dependent on petroleum derivatives. Expenditure on imported petroleum derivatives in 2016 was 5.5% of GDP,² the highest percentage in Central America. Petroleum derivatives are used primarily in transportation and thermoelectric generation. Total installed generation capacity was 2,571 MW in 2017, while the available energy supply was 8,957 GWh, 37.4% of which was supplied by thermal generation, 20.6% by hydraulic generation, 38.4% by nonconventional renewable energy (NCRE), and 3.7% by the MER.
- 1.6 Investment in NCRE has developed as a result of the Law on Incentives for Electricity Generation Using Nonconventional Renewable Energy Sources (2007). Installed NCRE power grew from 98 MW in 2007 to 1,116 MW in 2017, and the share of NCRE in the generation matrix increased from 5% to 38%. NCRE-based generation projects using hydroelectric and wind power, solar panels, biomass, and a geothermal power plant are currently in operation. The ENEE has made progress on construction of the Patuca hydroelectric plant (104 MW), expected to begin operations in the fourth quarter of 2018. Renewable energy generation contributes to the National Plan for 2022³ and the Country Vision 2010-2038, which set targets for the share of renewable energies in the generation matrix at 60% in 2022 and 80% in 2038.
- 1.7 **National Transmission System (STN).** The STN has 2,616 km of transmission lines: 1,213 km with 230 kV of capacity, 832 km with 130 kV of capacity, and 571 km with 69 kV of capacity. The STN has 74 substations: 19 at 230 kV, 36 at 138 kV, and 19 at 69 kV. The substations' capacity is a function of the distance between production sites and the location of electricity usage, as well as demand for electricity.
- 1.8 As the STN is configured, the transmission system connects the southern zone of Honduras, where most of the country's thermal and NCRE generation occurs, with northern Honduras, where most of the country's industrial⁴ and commercial demand is concentrated. The northern part of the country is adjacent to the Atlantic coastal strip, a hub for tourism. The STN runs through the country's main hydroelectric power plant, El Cajón, which is cofinanced by the Bank. Under the legal framework in effect until July 2014, only the government was allowed to invest in the STN. The ENEE's longtime financial weakness hindered investment to modernize and expand the STN, causing an investment shortfall and limiting the ability to meet growing demand for expansion of the STN, in order to ensure reliable electricity supply,

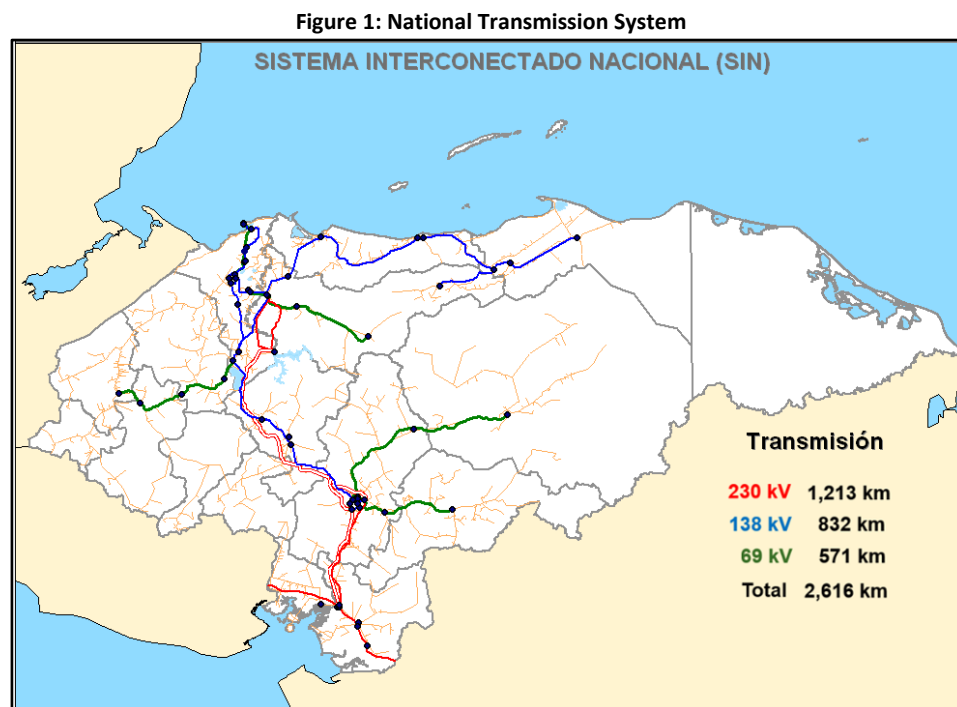
² Central America and the Dominican Republic, [hydrocarbon statistics, 2016](#). Economic Commission for Latin America and the Caribbean (ECLAC).

³ The Country Vision 2010-2038 and the National Plan for 2022 were approved in [Legislative Decree 286-2009 of 2010](#).

⁴ In 2016, according to the National Household Survey of the Honduran Statistics and Census Institute, the department of Cortés in northern Honduras is home to 47% of the economically active population working in the industrial sector.

quality service, development of new NCRE-based generation projects, reduction of technical losses, and timely compliance with investment commitments in the Central American Electric Interconnection System (SIEPAC). To address the need to transform and transmit energy at critical points of the STN, the ENEE has resorted to the costly approach of leasing “temporary” mobile substations on an ad hoc basis, and occasionally over a medium-term period. These funds could have been used to finance more permanent solutions, such as the construction of new substations in accordance with ENEE standards.

- 1.9 Limitations in transmission and transformation capacity permeate STN’s facilities, causing service interruptions, infrastructure damage, and economic losses to the ENEE and the national productive system. The failure to expand and develop transmission infrastructure is one of the main obstacles to integrating new NCRE sources into the STN and causes system bottlenecks, particularly in areas with the highest demand—Valle de Sula and Central District—and at the Progreso substation, which serves northern Honduras and the Atlantic coastal strip. On the line between San Pedro Sula Sur (SPSS) and San Buenaventura (SBV), the lack of such infrastructure in the STN makes energy dispatch inefficient, with losses estimated at US\$20.5 million in 2018, according to the system operator.



- 1.10 The ENEE’s strategic expansion plan⁵ estimates the need for investment in transmission infrastructure at more than US\$425 million (2.3% of GDP). The vulnerability of the transmission network due to age and saturation of transformation equipment, combined with growing energy demand, takes a particularly steep toll on areas such as northern Honduras and the Atlantic coastal strip.

⁵ ENEE strategic investment plan 2018-2020.

- 1.11 The recent diversification of generation with NCRE sources, especially wind and solar, has taken place primarily in southern Honduras. Installed capacity for NCRE generation has grown at an annual rate of 80% over the past three years with no help from investment in the STN.⁶ This generation reduces the cost-effective, efficient dispatch of thermal and renewable energy from southern Honduras due to a lack of installed capacity for transmission to serve northern and central Honduras, which have the highest growth in commerce and population. To carry electricity from south to north, a single 230 kV transmission line connects the Agua Caliente substation in the south to the Progreso substation in the north. The lack of capacity in electricity infrastructure further limits transmission in northern Honduras, where the highest-capacity transmission lines are at only 138 kV.
- 1.12 In view of the urgent need for works in the STN, many of which have been planned for a decade now, the Honduran government decided to finance priority strategic investments and designated ENEE Transmission as the operator of the STN. The CREE prepared the legislation as part of the third programmatic series of reforms in the sector (see paragraph 1.17), which will allow for private-sector participation in financing, building, and operating segments of the STN.
- 1.13 **Integration with the MER.** Honduras is part of the MER and, as part of SIEPAC, is connected to Guatemala and El Salvador. The connection with Guatemala is through the segment between Panaluya, Guatemala, and San Buenaventura, Honduras. Loan operation 3103/BL-HO financed construction of the La Entrada substation, which has been in operation since August 2017. This substation is connected to the Panaluya–San Buenaventura transmission line and helps meet the energy needs of western Honduras through purchases from the MER. Honduras is the second-leading buyer of energy from the MER.⁷ The average amount of energy purchased from the MER, on both the contract and spot markets, rose 90% between 2013 and the 2014-2016 period. Honduras's capacity to sell electricity on the MER might have been greater, but it is limited by a lack of national investments in the STN.⁸ Ensuring future energy transactions between Honduras and the MER will require such investments to be made, in accordance with SIEPAC's conditions and standards.⁹

⁶ The increased share of renewable energies poses a significant challenge to Honduras's transmission system, as demonstrated in the "Study on Voltage Equilibrium and Control Reserves for Integration of Renewable Resources in Honduras," prepared by the U.S. State Department. This study noted that the voltage problems in the northern part of the Honduran network are exacerbated by increases in solar energy. Although this portion of the network is far removed from the generation of solar energy, it is adversely affected because solar energy generation displaces costlier forms of generation in the north, causing the network to lose some of the all-essential voltage support provided by these displaced resources. Also adversely affecting voltage levels in the north is the fact that greater solar energy generation in the south increases the flow of power through the south-north corridor from Agua Caliente at 230 kV to Progreso at 230 kV and through a 138 kV network to San Pedro Sula, which further reduces voltage in the north.

⁷ Honduras achieved economic benefits totaling US\$68.1 million between June 2013 and December 2015 as a result of transactions (imports and exports) on the MER. [Integración eléctrica centroamericana. Génesis, beneficio y prospectiva del proyecto SIEPAC. IDB, 2017.](#)

⁸ Honduras needs to make some US\$90 million in investments to boost the capacity of SIEPAC. According to the MER board of directors, Honduras is the country with the greatest investment needs.

⁹ The national investments are works on the STN needed to enable international transportation of electricity through SIEPAC under the conditions and standards for which it was designed. The need for SIEPAC investments and agreements to promote the use of the MER was discussed at a high-level meeting in Washington, D.C., on 17 April 2018.

- 1.14 **Gender perspective.** The ENEE currently has 2,112 employees in administrative and technical positions, 33% of them women. Only 6% of its upper management positions and 19% of its middle and lower management positions are held by women. The ENEE recognizes that incorporation of a gender perspective would help promote gender equality in the sector and would play a vital role in promoting gender equality by driving sector policies and projects and improvements in the quality of life of the population.
- 1.15 **The Bank's country strategy.** The program is aligned with the Bank's country strategy with Honduras 2015-2018 (document GN-2796-1) through the following IDB strategic objectives: (i) improve the efficiency and quality of electricity service and diversify the power generation matrix, and (ii) increase access to electricity service; as well as the following expected outcomes: (a) reduction in technical and nontechnical losses in the transmission and distribution of electricity, (b) improved service quality by reducing interruptions in the electricity supply, (c) improvement and expansion of the STN, (d) increase in the volume of transactions in the MER, and (e) increase in electricity coverage nationwide. The program is also aligned with the two crosscutting sectors of: (i) gender focus and development with identity, and (ii) climate change and disaster risk management, by promoting the design and implementation of a policy and plan of action to promote workforce equity at the ENEE, and by financing electricity infrastructure to develop the country's generation capacity based on renewable energies. The program is also aligned with the line of action for stimulation of the productive sector under the Plan of the Alliance for Prosperity in the Northern Triangle, as it will promote strategic investment sectors, modernize and expand infrastructure, and help reduce energy costs and make electricity service more reliable. The operation is included in the 2018 Operational Program Report (document GN-2915). The Bank considers the sector to have made significant progress on reforms. Two programmatic operations have been approved thus far to support structural reforms in the sector (operations 3386/BL-HO and 3619/BL-HO), under which measures have been adopted for sector reforms and policies aimed at improving the financial sustainability, operational efficiency, and safety of the electricity supply.
- 1.16 **Sector knowledge.** The Bank has extensive knowledge of Honduras's electricity sector as a result of having supported generation, transmission, and distribution in the country since 1980. The Bank is currently executing two transmission-related operations with the ENEE: Support for the Integration of Honduras in the Regional Electricity Market (3103/BL-HO), approved in 2013, which resulted in construction of the La Entrada substation; and the Cañaveral-Río Lindo Hydropower Complex Rehabilitation and Upgrading Project (3435/BL-HO), approved in 2015; both of these operations are being executed by the ENEE. The Bank is also supporting the structural reform program in the sector through technical assistance and a series of three programmatic policy-based loan operations (3386/BL-HO, 3619/BL-HO, and 4448/BL-HO). The third operation of the series was approved in 2017. The Bank's programs have helped to (i) increase energy transactions between Honduras and the MER, (ii) increase installed power based on renewable energy sources, (iii) make the transmission system more reliable, and (iv) build ENEE capacity for sector planning and management.
- 1.17 The Bank has been executing technical cooperation operations that will serve as inputs for the activities under this operation. The Bank provides technical cooperation to the government and targeted technical assistance to the ENEE for

processes to improve operational efficiency in the sector, through ongoing dialogue and specialized technical assistance in the form of studies to help strengthen financial and planning capacity in the sector. The program will benefit from the technical cooperation operation “Support for the Sustainable Development of Renewable Energy in Honduras” (ATN/SX-16689-HO), with resources from the Scaling Up Renewable Energy Program in Low Income Countries (SREP), which promotes financially sustainable policy and regulatory frameworks for renewable energy projects connected to the STN.

- 1.18 **Lessons learned for operation design.** Operations in the transmission subsector call for an executing agency that is technically sound in transmission planning and engineering. The program coordination unit (PCU) will include personnel from the executing agency and specialized fiduciary consultants, as this has been key to the successful execution of previous operations. Such a unit facilitates preparation of technical and budgetary reports, as well as bidding documents. The practice of external supervision during execution of works was used in loan operations 1584/SF-HO, 2016/BL-HO, and 3103/BL-HO, facilitating effective contract management, prevention of cost overruns, and time tracking and adjustments to benefit the operation. In terms of social and environmental considerations, capacity is needed for effective social-sector management in the electricity sector industry chain, to avoid any slowdown in the pace of private investment in generation projects as a result of ineffective social-sector management. The regulatory authority and municipal governments need support to strengthen, effectively implement, and enforce applicable laws and regulations. Investment operations should also be accompanied by sector reform interventions with the effect of restructuring the executing agency to reduce the number of employees. These lessons learned have been taken into account for this program, and a stable specialized team is being formed to prepare and execute operations.
- 1.19 **Value-added of the new operation.** The operation will contribute to making the ENEE more financially sustainable through works to optimize power purchasing at the national and regional levels, reduce transmission losses, improve system reliability, and make NCRE connections viable. The operation will also fulfill regional commitments and build ENEE capacity in transmission management, social and environmental management, and gender issues. The use of financial and human resources will be optimized by using the PCU that was formed to execute existing Bank-financed operations.
- 1.20 **The country’s sector strategy.** The Government of Honduras began the sector reform process in late 2013, adopting measures to ensure sector financial sustainability, operational efficiency, and an adequate supply of electricity; to increase the share of renewable energy in the energy matrix; and to reaffirm its commitment to further Mesoamerican energy integration. To support this process, the Government of Honduras requested Bank financing for this program, which is aligned with the country’s sector strategy. This sector strategy includes strengthening the ENEE’s transmission infrastructure to make full use of the SIEPAC, make the ENEE more financially sustainable, and the system more reliable, contribute to drawing power from NCRE projects in operation and development, and boost productivity in the country’s main population centers.

- 1.21 Honduras has also committed to reducing its emissions by 15% from a business-as-usual scenario by 2030¹⁰ as part of its Intended Nationally Determined Contribution (INDC) under the 2015 Paris climate accord, which will require a significant reduction in emissions from electricity generation while at the same time meeting the country's new energy needs resulting from population and economic growth.
- 1.22 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and aligned with the development challenges of (i) productivity and innovation, by promoting the economic development of beneficiary communities and implementing generation systems based on renewable energy; (ii) social inclusion and equality, by facilitating the population's access to electricity service; and (iii) economic integration, by modernizing existing energy infrastructure while facilitating interregional power purchasing. The program is aligned with the crosscutting themes of (i) institutional capacity and rule of law, by strengthening the sector's capacities for technical as well as social and environmental management; (ii) gender equality and diversity, by furthering the design and implementation of a policy and action plan to promote workforce equity at the ENEE; and (iii) climate change and environmental sustainability, by facilitating the use of renewable energy with low levels of carbon dioxide emissions, which contributes to climate change mitigation. An estimated 26.19% of the operation's resources will be invested in climate change mitigation activities, in keeping with the [multilateral development banks' joint methodologies for tracking climate finance](#). These resources contribute to the IDB Group's target of increasing the financing of climate change related projects to 30% of total approvals of operations by the end of 2020.
- 1.23 The program is aligned with the priority areas of the IDB Infrastructure Strategy: Sustainable Infrastructure for Competitiveness and Inclusive Growth (Operational Policy OP-1012, document GN-2710-5), by supporting the construction and maintenance of socially and environmentally sustainable infrastructure contributing to improved quality of life. The program is consistent with the Energy Sector Framework Document (document GN-2830-3) in the thematic areas of energy security and sustainability, by promoting the diversification of the energy matrix through the use of renewable energy and the strengthening of national and regional electricity infrastructure. The program is consistent with the Climate Change Sector Framework Document (document GN-2835-3), as the proposed investments entail a reduction in greenhouse gas emissions.
- 1.24 The program is consistent with the objectives of the Public Utilities Policy (document GN-2716-6) and satisfies the conditions of financial sustainability and economic evaluation, since the representative sample of the works/investments to be financed have been shown to be sustainable and viable (see paragraph 2.2). The analysis of the sample was used to identify selection criteria to ensure that the works to be financed are sustainable (see paragraph 1.28).
- 1.25 The proposed works are aligned with the [SREP investment plan](#) for Honduras, which includes three components executed by the IDB: (i) strengthening the renewable energy policy and regulatory framework (US\$850,000), (ii) sustainable rural

¹⁰ The business-as-usual scenario for projected emissions is based on economic and population growth and on historical emissions trends in the absence of climate change policies. This scenario was constructed in 2015 using the preliminary estimate of the quantified emissions series during preparation of the INDC (1995-2012). [INDC: Honduras](#).

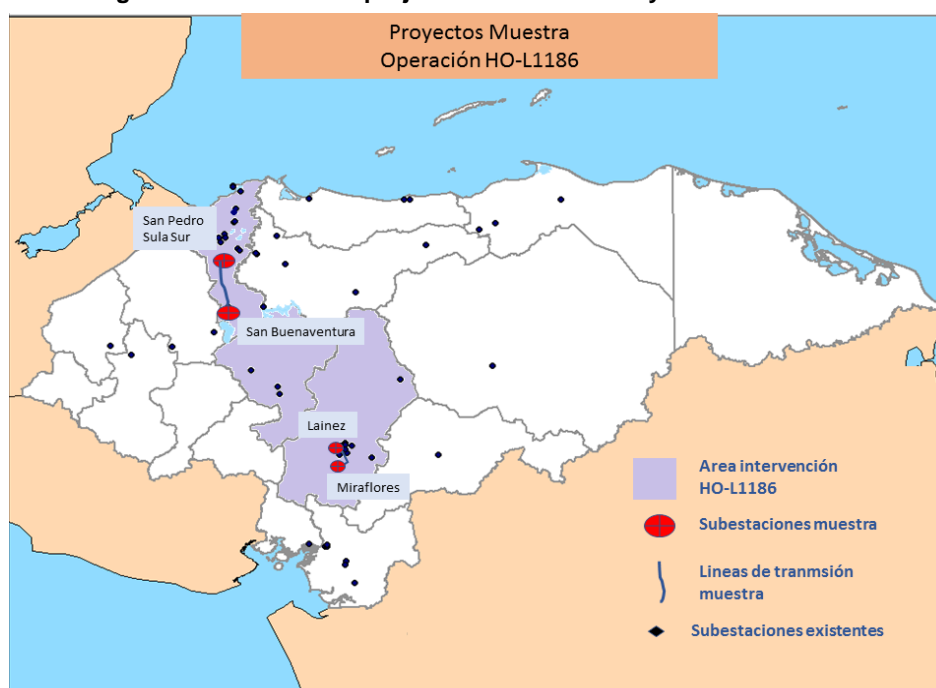
energization (US\$10,216,000), and (iii) grid-connected renewable energy development support (US\$18,624,000). The works fall under Component 3 of the SREP investment plan for Honduras and contribute to its objectives of (i) ensuring the connection of NCRE projects to the National Interconnected System (SIN), (ii) diversifying the energy matrix, and (iii) fulfilling the commitments to strengthen the National Transmission System.

B. Objectives, components, and cost

- 1.26 **Objective.** The general objective is to strengthen the National Transmission System (STN) by financing priority works in the ENEE investment plan. The specific objectives are to: (i) build capacity for interconnection with the Regional Electricity Market (MER), in order to make full use of the Central American Electric Interconnection System (SIEPAC); (ii) improve the ENEE's financial sustainability and institutional capacity; (iii) improve transmission quality by making electricity service more reliable; and (iv) facilitate transport of electricity generated with renewable energy projects to the STN.
- 1.27 **Component 1: Expansion of transmission infrastructure (US\$155.6 million: IDB, US\$141.42 million; SREP, US\$5 million; and local counterpart, US\$9.15 million).** This component will include activities to strengthen the STN infrastructure and make the ENEE more financially sustainable by building and converting transmission lines, building and expanding substations in northern and central Honduras, and installing capacitor banks on the transmission grid. Rights-of-way will need to be secured for construction of new transmission lines, and land will need to be purchased for the new substations. The substation expansions will take place on land owned by the ENEE, which, as a good practice, typically purchases more land than it needs, to allow for future expansion. Local counterpart resources will finance land purchases, compensation for the required rights-of-way, and expenditures associated with technical-administrative and social and environmental supervision of the subprojects, to be performed by ENEE staff. The works will help to (i) strengthen the STN's capacity by alleviating the overload at substations throughout the country and improving service quality; (ii) satisfy the growing demand for energy and contribute to the country's economic development; (iii) optimize the STN toward cost-effective, efficient dispatch; (iv) increase the share of renewable energy in the generation matrix; and (v) partially fulfill Honduras's commitments to financing STN investments, in order to make full use of the SIEPAC. The representative sample (see paragraph 2.9) for the program consists of the following works:
- a. In the northern zone: (i) expansion of the SPSS and SBV substations; and (ii) reconstruction of the 138 kV SBV-SPSS transmission line on a new structure and simultaneous installation of a new 230 kV circuit (48 km). The SPSS and SBV substations represent national investments for the SIEPAC.
 - b. In the central zone: (i) expansion of the Laínez and Miraflores substations, and (ii) construction of the 138 kV Laínez-Miraflores transmission line. The land for the substations in the sample is owned by ENEE, whereas the right of way for the SBV-SPSS transmission line is in the process of being secured.
- 1.28 The works in the representative sample have been fully identified. The projects of that sample include technical, environmental, and economic studies, basic engineering designs, draft bidding documents, and also satisfy the following criteria, which must also be met by all other works financed with resources from the program:

(i) the economic-financial analysis must yield an economic internal rate of return greater than 12%; (ii) the works in the sample must have an environmental and social management plan, and all other works must comply with the program's environmental and social management framework ([ESMF](#)), which is included in the environmental and social management report; (iii) the works must be classified as socioenvironmental category "B" or "C;" (iv) the works must be located in the central or northern zones of the country; (v) the works must be classified as construction of a new substation, expansion of an existing substation, or installation or uprating of a transmission line; and (vi) the works must be priority works in the national government's transmission expansion plan. A list has been assembled of preidentified priority works eligible for financing that are part of the ENEE's expansion plan.

Figure 2. Transmission projects to be financed by the Bank



- 1.29 **Component 2: Institutional strengthening of ENEE (US\$6.46 million IDB).** Financing will be provided to (i) develop and implement a communication and corporate image strategy, adopting good practices implemented successfully in the region to raise awareness among ENEE's customers about the institutional restructuring process, efficient energy usage, and costs in the electricity supply chain; (ii) strengthen the Environmental Division¹¹ by designing a plan for such purpose, procuring equipment and software and providing the related training, developing guidelines for the social and environmental analysis of ENEE projects, designing a social policy¹² to establish mechanisms for providing compensation and processing complaints and claims, commissioning specialized advisory services on

¹¹ The Environmental Division reports directly to ENEE and provides specialized technical services in environmental and social assessment to ENEE's generation, transmission, and distribution companies.

¹² As part of the reform process, the Energy Department has a social and environmental responsibility unit that will provide guidance to sector operators, including the ENEE.

social and environmental matters, and purchasing vehicles for environmental supervision of projects; (iii) develop a corporate policy on gender for the ENEE in order to promote gender equality as part of the ENEE's priorities, structure, and targets. A gender analysis of the ENEE will be prepared to identify obstacles faced by women entering the sector and specifically joining the ENEE; prepare a pilot plan with specific actions to promote the adoption of a gender focus at selected institutions for the strategy; and implement the gender policy at the corporate level ([Proposed gender intervention](#)); (iv) strengthen management capacity in planning and execution of the expansion, operation, and maintenance of infrastructure, to help improve the financial and operational sustainability of ENEE Transmission as an entity capable of actively participating and competing in the Honduran electricity market. Financial and accounting management capacity will be developed for transparency and accountability through specialized technical advisory support, the purchase and development of software, appraisal of fixed assets, and commissioning of financial audits of the ENEE; (v) training in project management, administration, operation, and logistics, effective communication, and energy-related topics; and (vi) specialized technical advisory support for procurement processes and for monitoring and managing contracts.

- 1.30 **Other costs (US\$2.12 million IDB).** Financing will be provided for hiring consultants to strengthen the PCU and conduct external audits, social and environmental audits, and the midterm and final evaluations. The costs associated with the program are itemized in Table 1.

Table 1. Total program cost¹³

Component	IDB	SREP	Local counterpart	Total
I. Expansion of transmission infrastructure	141,421,400	5,000,000	9,148,474	155,569,874
Northern Zone	59,534,945	5,000,000	0	64,534,945
Expansion of substations	22,980,865	0	0	22,980,865
Construction of new substations	19,180,000	0	0	19,180,000
Construction of 138 kV transmission line	2,470,000	0	0	2,470,000
Upgrading of 230 kV transmission line	14,904,080	5,000,000	0	19,904,080
Central Zone	61,344,998	0	0	61,344,998
Expansion of substations	26,704,414	0	0	26,704,414
Construction of new substations	32,000,000	0	0	32,000,000
Upgrading of 138 kV transmission line	2,640,584	0	0	2,640,584
Procurement and installation of capacitor banks in transmission network	5,000,000	0	0	5,000,000
Contingencies [1]/	7,991,457	0	0	7,991,457
Land purchases, rights-of-way management, and technical, social, and environmental supervision	0	0	9,148,474	9,148,474
External supervision of projects	7,550,000	0	0	7,550,000
II. Institutional strengthening of ENEE	6,458,600	0	0	6,458,600
Strategic plan for ENEE financial and operational sustainability	3,350,800	0	0	3,350,800
Communication and corporate image strategy	110,000	0	0	110,000
Strengthening of Environmental Division	868,800	0	0	868,800
Pilot plan for gender inclusion at corporate level	494,000	0	0	494,000
Development of financial and accounting management capacities for transparency and accountability	540,000	0	0	540,000
Training in business management, administration, and operation	325,000	0	0	325,000
Monitoring, management of contracts and procurement	770,000	0	0	770,000
Other costs	2,120,000	0	0	2,120,000
Executing unit	1,100,000	0	0	1,100,000
External audit	750,000	0	0	750,000
Environmental audit	130,000	0	0	130,000
Midterm and final evaluations	140,000	0	0	140,000
TOTAL	150,000,000	5,000,000	9,148,474	164,148,474

[1] Determined by the executing agency, based on experience with previous operations related to the works of Component I.

C. Key results indicators

1.31 The fulfillment of program objectives will be measured against the indicators and targets presented in the Results Matrix and in Table 2 below.

¹³ Because this is a multiple-works program with a global budget, the table of costs is indicative.

Table 2. Expected outcomes and indicators

Outcomes	Indicators
Improved quality and reliability of transmission network in central and northern Honduras	Energy not supplied due to failures in the transmission system in northern Honduras over a one-year period
	Energy not supplied due to failures in the transmission system in central Honduras over a one-year period
Increased installed capacity for renewable electric power	Installed capacity for renewable energy
Increased generation of renewable energy as a percentage of total energy	Share of renewable energy in the generation matrix.
Increased supply of energy due to a reduction in dispatch failures	Energy added to transmission system, previously not dispatched
Increased availability of energy for transactions on the MER	MER import potential from Guatemala to Honduras
Increased operational and financial capacity of ENEE Transmission	Financial statements without disclaimer of opinion EBITDA (earnings before interest, taxes, depreciation, and amortization) margin Increase in energy ¹⁴ sold on the SIN, due to the optimization of energy dispatch

- 1.32 **Beneficiaries.** The program will benefit all users of the SIN across sectors of consumption: residential, commercial, industrial, heavy consumers, government, municipalities, and autonomous entities. Specifically, the project aims to benefit the 5.1 million people living in northern and central Honduras. Improved electricity service will help provide a reliable utility service to promote productive activity in the beneficiary communities, which are primarily engaged in industry, commerce, and tourism, in addition to fostering a greater national sense of ownership, thereby reducing emigration. Increased service reliability will open up opportunities to modernize productive practices and add greater value to products through postharvest refrigeration and processing in farming and fishing, as well as irrigation for farming. Specifically, the intervention areas include municipios of migrants identified in the Plan of the Alliance for Prosperity in the Northern Triangle, where high rates of service interruption are reported.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Financing structure.** The program is structured as a multiple-works investment loan,¹⁵ as it will finance similar projects that are independent of each other and meet predefined eligibility criteria (see paragraph 1.28). The program will be financed with blended resources (Ordinary Capital and concessional Ordinary Capital) from the IDB and reimbursable resources from the Strategic Climate Fund, specifically the Scaling Up Renewable Energy Program in Low Income Countries (SREP). The

¹⁴ Refers to lower cost energy produced by power plants, which, due to transmission constraints, cannot be dispatched.

¹⁵ Multiple-works programs finance a portfolio of similar projects that are independent of one another and meet the program's eligibility criteria, including quality and reliability standards set by the ENEE.

resources will be disbursed over a five-year period according to the disbursement schedule in Table 3, as described in the [disbursement plan](#).

Table 3. Disbursement plan

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	4,354,571	42,043,825	63,757,146	34,936,608	4,907,849	150,000,000
SREP	3,980,816	1,019,184				5,000,000
ENEE	3,129,060	3,653,729	980,071	737,390	648,224	9,148,474
TOTAL	11,464,447	46,716,738	64,737,217	35,673,998	5,556,073	164,148,474
IDB	38.0%	90.0%	98.5%	97.9%	88.3%	91.4%
SREP	34.7%	2.2%	0.0%	0.0%	0.0%	3.0%
ENEE	27.3%	7.8%	1.5%	2.1%	11.7%	5.6%

B. Viability and sustainability

- 2.2 The program evaluation looked at social, environmental, economic, financial, and technical considerations in a representative sample accounting for about 31% of the total program amount (see paragraph 1.27). This percentage is consistent with requirements for multiple-works loans. Program-financed works must satisfy the criteria given in paragraph 1.28, which are based on the following analysis of the representative sample:
- 2.3 **Economic and financial evaluation.** A [project economic analysis](#) was conducted of the proposed investments' impact on program objectives. In selecting works, the ENEE analyzed technical alternatives for each project identified as critical to ensuring quality, safety, and reliability of the electricity supply over the short term in the targeted areas. The cost and returns of each alternative were evaluated, and the least-cost option was selected from among those achieving the desired technical solution. An economic evaluation of these least-cost solutions was then performed to ensure viability.
- 2.4 Investment costs were taken from the estimates based on the ENEE's feasibility analysis, which were evaluated by independent consultants. This analysis is reflected in the technical profiles for each project. Annual operation and maintenance costs for the new transmission systems to be installed are estimated at 3% of the investment.
- 2.5 The direct benefits of a strengthened National Transmission System (STN) associated with the investments in the project sample were evaluated, and the following main benefits were identified: (i) reduced electricity losses, and (ii) increased service reliability.
- 2.6 The incremental costs and revenues resulting from the project were projected at market prices for the financial evaluation and at efficiency prices for the economic evaluation. Net flows of costs and benefits were used to calculate financial and economic internal rates of return (IRR) and the financial and economic net present value (NPV), using a 12% benchmark discount rate and a 20-year horizon. This projection is summarized in Table 4.

Table 4. Summary evaluation, base case

	SPSS-SBV transmission line project	Laínez-Miraflores transmission line project
Financial NPV (US\$ million)	284.4	88.3
Financial IRR (%)	59.0	82.7
Economic NPV (US\$ million)	276.8	87.8
Economic IRR (%)	58.3	108.1

- 2.7 This analysis confirms that investments with the technical, economic, and financial features found in the project sample, for the purpose of strengthening and expanding the Honduran transmission system, are highly beneficial in financial and economic terms. The results were subjected to a sensitivity analysis amid adverse changes that are reasonably likely to occur in the most critical variables determining return on investment: investment costs, level of losses, cost of outage, and short-term marginal cost. These simulations bear out the results of the viability analysis and confirm that the proposed investments are robust.
- 2.8 The analysis found additional, unquantified benefits as well, such as the increased likelihood of Honduran participation in SIEPAC's Regional Electricity Market (MER) and reduced carbon dioxide emissions as a result of the increased share of nonconventional renewable energy (NCRE) in the energy matrix. Since Honduras is a net importer of electricity, greater access to power at more competitive prices and the prospect of not having to invest in new generation constitute significant potential for economic and financial benefits.
- 2.9 **Technical viability.** In designing the works, the following factors were taken into consideration: (i) current demand and generation; (ii) demand and generation scenarios in view of seasonal fluctuations and minimum, average, and maximum values in the National Interconnected System (SIN); (iii) bus voltage levels; and (iv) maximum load levels of transmission and distribution lines and transformers. In selecting works, alternatives were analyzed on the basis of studies on power flux, load levels, and incremental loss analyses, as described in the projects' technical profiles.¹⁶ In the technical evaluation of the projects, the alternatives selected for each type of work will help expand transmission capacity in northern and central Honduras, reduce overloads at a number of connected substations in the targeted area, enhance reliability and operation levels of the electricity system, and strengthen the national system for promoting the use of SIEPAC. Specifically, the works on the SPSS-SBV transmission line will help clear the bottleneck in electricity transfers from southern to northern Honduras, which will increase the transmission of thermal energy at low costs from the south, reduce the operation of costly thermal power plants in the north, and increase the dispatch of renewable energy. This, in turn, will optimize energy dispatch and reduce generation costs. Works on the Laínez-Miraflores transmission line, meanwhile, will make electricity service more reliable in the municipios of Comayahua and Tegucigalpa, creating a reliable system that will provide a reliable electricity supply to 11 local hospitals and satisfy the growing demand from these two municipios.
- 2.10 **Institutional viability for project execution.** The [institutional capacity assessment](#) found that the ENEE has strengths in technical areas but weaknesses in

¹⁶ [Technical profile of the project sample: SPSS-SBV transmission line.](#)
[Technical profile of the project sample: Expansion of the Laínez and Miraflores substations and construction of the 5 km transmission line.](#)

administration and management. As a result, the existing program coordination unit (PCU) arrangement will continue to be used. The PCU arrangement leverages the ENEE's technical strengths, as well as the required fiduciary, managerial, and coordination capacities. This project management unit has been a recurring theme at all counterpart entities—external and internal, at senior and middle management levels, and at the operational level—and these counterpart entities have valued the ability to execute programs with improved institutional performance thanks to the role of the PCU.

- 2.11 **Sustainability.** The technical, economic, and financial viability analysis found that the works are sustainable in these areas. The works and activities for institution-strengthening will contribute to the technical, operational, and financial sustainability of the ENEE and the sector (see paragraph 2.3). The ENEE will operate and maintain the works to be financed, and the costs will be covered by electricity service rates.¹⁷ The works will help dispatch power in a cost-effective way, promote energy transactions on the MER, and increase the share of NCRE in the generation matrix. Investments in transmission this year will help reduce the greenhouse gas emission factor by an estimated 12%.¹⁸

C. Environmental and social safeguard risks

- 2.12 The program is classified as a category “B” operation in accordance with Operational Policy OP-703, as it entails environmental and social risks typically associated with construction and operation of high-voltage transmission lines and electrical substations. The mitigation measures for each project in the representative sample are described in the respective environmental and social management plans (ESMPs). For projects not included in the sample, the ESMF will be used. The routes of the transmission lines in the sample were based on an analysis of alternatives to minimize environmental impact and avoid the need for resettle people or move structures.¹⁹ For the SPSS-SBV transmission line, an asset compensation plan was prepared to mitigate the impacts of securing rights of way. This operation will not entail negative impacts on indigenous populations, despite the reported presence of such populations in the project target area. The following medium-level environmental and social risks were identified: (i) contextual risk related to social conflicts that are not currently associated with electricity transmission projects, which is the focus of this operation, but rather to electricity generation projects in various rural areas of Honduras (nearby but outside the project area), which occasionally involve indigenous populations; to mitigate this potential risk, significant consultations will be conducted, and good practices followed for social management of projects; (ii) occupational and community health and safety risks associated with the construction and operation of transmission lines and substations; this risk will be mitigated by following industry best practices and designing and appropriately locating the facilities vis-à-vis populated areas; and (iii) exacerbation of the risk of forest fires during the dry season; to mitigate this risk, good practices for fire

¹⁷ The current rate schedule, approved in May 2016, provides for proper compensation of transmission and distribution costs. Generation fees have been undergoing updates since May 2016 with the aim of covering all costs. However, as a result of the split of the ENEE into three legally and financially autonomous companies, transmission fees are treated separately from generation fees.

¹⁸ Estimated in the updated SREP investment plan. This percentage is subject to revision in view of the confirmation of the national emission factor, which is being financed by technical cooperation operation ATN/OC-14905-HO.

¹⁹ The route bypasses population centers and/or observes the safety margins set by international standards.

prevention and control will be followed in construction and maintenance activities during dry seasons.

- 2.13 The works to be financed by the operation must fully comply with Bank policies and the conditions and actions described in the ESMPs for the sample projects. The provisions of the ESMF will apply to projects not included in the sample, including resettlement plans and plans for indigenous peoples, if necessary. Environmental and social evaluations and ESMPs have been prepared for the subprojects in the sample. These documents and the ESMF have been posted on the Bank's website. The ENEE concluded the significant consultations process for the sample projects on 4 June 2018. The outcomes of each significant consultation have been documented in a consultation report and attached to the final versions of the environmental and social evaluations and ESMPs for the sample projects (optional links [11](#), [12](#), [13](#), and [14](#)). Natural disaster risk is rated as moderate. The natural threat maps indicate that the only high-level risks are related to drought and heat waves. Due to the presence of seasonally dry wooded areas along the proposed route for the SPSS-SBV transmission line, the risk of forest fires could be exacerbated if good practices for fire prevention and control are not followed in construction and maintenance activities during dry seasons.
- 2.14 The operation complies fully with the Bank's applicable safeguard policies.

D. Fiduciary risks

- 2.15 **Fiduciary risk.** A medium-level risk was identified in the increased work volume for the technical units of ENEE and the fiduciary unit of the current PCU. As a mitigation measure, the ENEE has agreed to strengthen these units by hiring the following additional technical personnel with the loan proceeds and its own resources: a financial specialist, at least one procurement specialist, two technical assistants, a contract monitoring specialist, and a social specialist (as noted in the ESMR). These consultants will be engaged in accordance with the job descriptions and terms of reference to be agreed upon with the Bank. The consultants will support ENEE, which will execute the program using its organizational structure and the current PCU, as well as fiduciary management systems.

E. Other project risks

- 2.16 **Public management and governance risk.** The possibility that inadequate budgetary ceilings and budgetary changes could lead to delays in execution and fines for the ENEE was identified as a high-level risk. The following medium-level risks were also identified: (i) turnover of government officials and ENEE personnel; (ii) delays in commencing the works due to the ENEE's lack of financial and budgetary ability to advance payments for the works; and (iii) delays in execution due to a lack of coordination with regional entities. The mitigation measures for these risks are as follows: (i) informational meetings on management with the Ministry of Finance and the Presidential Office for Project Monitoring of the Ministry of General Government Coordination; (ii) strengthening of the executing agency for procurement by hiring specialized personnel and holding regular meetings to monitor procurement processes; and (iii) the ENEE will hold regular coordination meetings with the regional entities with the participation of the Energy Department and the Presidential Office for Project Monitoring, which will foster commitment from the parties and provide for ongoing monitoring of compliance.

- 2.17 **Development risk.** The possibility of delays in awarding contracts due to a failure to secure rights of way or a failure to secure land ownership in a timely manner was identified as a high-level risk. The following mitigation measures are proposed: an action plan for securing rights of way; logistical coordination for works between the ENEE's engineering division and the contractor; and use of the "Fast Track" Law²⁰ for the process of acquiring land and providing compensation for rights-of-way, with the support of specialized entities.²¹ The following medium-level risks were also identified: (i) execution delays and cost overruns due to poor construction practices, or contractors with limited financial capacity; (ii) resistance to adoption of a gender equality and equity policy and a social policy at the ENEE; and (iii) increased work volume for the ENEE's technical and fiduciary units. The following mitigation measures are proposed for these risks: (i) broadly disseminating the international competitive bidding process and scheduling ample time for bid preparation; (ii) hiring a manager to work directly with the management of ENEE Holding and the PCU to implement the gender equality policy, and holding strategic workshops to raise awareness; and (iii) hiring technical and fiduciary support personnel.

III. SUMMARY OF IMPLEMENTATION ARRANGEMENTS

A. Execution mechanism

- 3.1 ENEE will execute, manage, monitor, and evaluate the program through the existing program management unit (PCU) for Bank loans in execution. ENEE will commission external supervisory firms to supervise the works.
- 3.2 The ENEE, as the executing agency, will implement and supervise the program, develop and approve the annual work plans, provide information to help the Bank monitor and evaluate program outcomes (see paragraph 3.7), coordinate and manage disbursements, and maintain accounting and financial records, including the program's required annual financial statements. The ENEE has a technical team trained in matters related to power transmission and has feasibility studies and social and environmental studies for 70% of the works to be financed. The PCU will be responsible for fiduciary management of both sources of financing. **As a condition precedent to the first disbursement, (i) the PCU will retain the current core staffing level and supplement it by engaging the consultants as described (see paragraph 2.15) and the social-sector specialist described in the [ESMR](#), to ensure that it has the necessary staffing for program execution at all times.**
- 3.3 **Procurement management.** The Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policies for Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9) will be followed for the procurement of works, goods, and consulting services financed with Bank resources. A combination of ex post and ex ante reviews will be used in accordance with the procurement plan. Procurement processes will be included in

²⁰ The Special Law on the Simplification of Public Infrastructure Investments (or "Fast Track" Law) will apply to the purchase of land for substations and/or compensation for rights-of-way. It was successfully applied for land purchases in the context of operation 3103/BL-HO. This Law determines the value of a property to be acquired, or compensation to be paid, based on its commercial or market value, rather than assessed value. The project neither provides for expropriation nor does it apply said Law for that purpose.

²¹ The executing agency has signed an agreement with the PCU for land management in Honduras—the Honduran Land Management Program of the Land Ownership Institute—to manage the effort to secure rights of way and purchase land. This is the program in Honduras with the greatest capacity to handle such matters.

the procurement plan approved by the Bank and will follow the procurement methods and thresholds established in the procurement plan. A procurement plan for the first 24 months of execution will be agreed upon and will be monitored, executed, and updated using the tools agreed upon with the Bank. PCU personnel may be engaged through single-source selection for the sake of continuity “of previous work that the consultant has carried out and for which the consultant was selected competitively” (paragraph 5.4(a)) in operations previously financed by the Bank and executed by the ENEE, contingent on a positive performance evaluation, in accordance with the Bank’s procurement policy (document GN-2350-9). Direct contracting will be used to purchase special licenses for energy operations, in amounts ranging from US\$5,000 to US\$40,000. These licenses will be bought from the developers of each software application, which hold the respective ownership rights, to comply with the Bank’s procurement policy, i.e. “[t]he required equipment is proprietary and obtainable only from one source” (document GN-2349-9, paragraph 3.6.(c), on goods obtainable from only one source).

- 3.4 **Advance procurement.** The operation allows for the possibility of moving ahead of schedule²² on the first bidding processes for works and the corresponding supervision, using the selection procedures and methods established in the Bank’s policies. Accordingly, the Bank will examine these processes to determine if they are eligible for financing with the loan proceeds, pursuant to the terms of the Bank’s procurement policies. However, these works are not expected to be awarded, and the contracts signed, until after the operation becomes eligible.
- 3.5 **Financial management.** ENEE Holding, acting through the PCU, will be responsible for financial management and will deliver audited financial statements for the financing from the Bank and the SREP within 120 days after the end of each fiscal period. The last of these reports will be delivered within 120 days after the date of the last disbursement. The ENEE will commission external auditing services in accordance with terms of reference previously approved by the Bank. Disbursements will be made in accordance with the financial plan and the Financial Management Policy for IDB-financed Projects (document OP-273-6), as updated and amended.
- 3.6 **Program Operations Manual.** Program execution will be governed by the program Operations Manual previously agreed upon with the Bank, to ensure effective execution. The program Operations Manual will include all procedures to be used in the program and may be amended during the program with the Bank’s written no objection. The program Operations Manual will include (i) detailed arrangements for program execution and institutional and operational roles and responsibilities of the entities involved; (ii) criteria for works not included in the project sample, so that they may be financed by program resources; (iii) detailed procedures for selection and procurement of works, goods, and services; (iv) investment sustainability strategy: recognition of expenditures through implementation of the current rate schedule as well as operating and maintenance responsibilities of the facilities; (v) rules and procedures for administrative and financial management; (vi) monitoring procedures; and (vii) measures, actions, and procedures set forth in the ESMP for

²² The Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN 2349-9) allows for advance contracting, provided that a borrower undertakes such contracting at its own risk in the event that the Bank determines the expenditure to be ineligible, either on grounds that it fails to conform with Bank procedures or because the loan for the project in question does not materialize.

works in the sample, and in the ESMF for works not included in the sample, which will be an annex to the program Operations Manual. **As a special contractual condition precedent to the first disbursement, the program Operations Manual will be approved on the terms previously agreed upon with the Bank.** The Operations Manual is necessary to ensure effective program execution.

B. Summary of arrangements for monitoring results

- 3.7 **Monitoring and evaluation.** The program has a [monitoring and evaluation plan](#). The monitoring arrangements will include (i) the [procurement plan](#); (ii) the [multiyear execution plan and annual work plan](#); (iii) annual verification that the targets set in Annex II have been met; and (iv) six-monthly reports that include (a) activities completed in the period in question, progress in execution, problems encountered, and how they are to be solved; (b) evaluation of the Results Matrix, procurement plan, and annual work plan; and (c) analysis of the Bank's project monitoring report, for which the fulfillment of targets for output and outcome indicators in the Results Matrix will be evaluated. Execution during the period in question will be evaluated, and planning for the next six months will be included. The six-monthly reports will be sent to the Bank for approval no later than 30 July and 30 January of each year.
- 3.8 The monitoring and evaluation plan includes project evaluation mechanisms, which are aimed at verifying that the targets set in the Results Matrix have been met. The ENEE will select and commission consulting services to conduct: (i) a midterm evaluation, once 50% of the project resources have been disbursed and justified, or after 30 months of execution, whichever occurs first. This evaluation will focus on progress, coordination, and execution; the degree to which contractual obligations have been met; recommendations for achieving proposed targets; and sustainability of the investments; (ii) a final evaluation within 90 days after the date of the last disbursement, with the final evaluation report to be delivered within 30 days after the last justification for disbursements, and determining the degree to which the targets set in the Results Matrix have been met; executing agency performance; factors affecting implementation; and recommendations for future operations; and (iii) an ex post cost-benefit analysis using the same methodology as the ex ante economic evaluation.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Economic Integration -Gender Equality and Diversity -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Reduction of emissions with support of IDBG financing (annual million tons CO2 e)* -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Urban rail and bus mass transit systems built or upgraded (km)*	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2796-1	Improving the efficiency and quality of the electric service and the diversification of the generation matrix; and increasing the access to electricity service.
Country Program Results Matrix	GN-2915	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		7.7
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		1.7
3.3 Results Matrix Quality		3.0
4. Ex ante Economic Analysis		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		3.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		1.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		8.5
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		6.0
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		B
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Accounting and Reporting.
Non-Fiduciary	Yes	Monitoring and Evaluation National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	HO-T1249 in preparation with SREP resources, aimed at fostering policy and regulatory frameworks to achieve long-term sustainability of rural electrification projects and ER isolated and networked. This TC will provide inputs for the Electric Power Regulatory Commission (CREE) to update the tariff specifications and incorporate secondary legislation in the current legal scheme, if necessary. HO-T1249 in preparation with SREP resources, aimed at fostering policy and regulatory frameworks to achieve long-term sustainability of rural electrification projects and ER isolated and networked. This TC will provide inputs for the Electric Power Regulatory Commission (CREE) to update the tariff specifications and incorporate secondary legislation in the current legal scheme, if necessary.

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The general objective of this operation is to strengthen the National Transmission System (STN) by financing priority works of the National Electric Energy Company's (ENEE) investment plan. The specific objectives are: (i) to strengthen the interconnection capacity with the Regional Electricity Market (MER) to promote the use of the Electrical Interconnection System of the Central American Countries (SIEPAC); (ii) improve the financial sustainability and institutional capacity of the ENEE; (iii) improve the quality of the transmission by increasing the reliability of the electric service; and (iv) facilitate the transportation to the STN of electricity generated with Renewable Energy (RE) projects.

The documentation is well structured—the legal and institutional framework of the electricity sector is described, and the main challenges of the sector, the diversification of the electricity matrix, the national transmission system (STN), and the role of the electricity sector of Honduras within the MER are identified and quantified. The program is structured as an investment loan for multiple works, since it finances projects with similar characteristics that are independent of each other and that meet predefined criteria. The proposed solution is clearly linked to the problems and challenges identified. The results matrix (RM) reflects the objectives of the project and shows a clear vertical logic for each of the two components. The outcome indicators are derived from the ex ante economic analysis and the lower level indicators reflect the design of the two components. The RM includes SMART indicators at the level of products, outcomes, and impacts, with their respective baseline values, targets, and means to collect the information.

The economic analysis is based on a representative sample of 31% of the program amount to be financed, which is based on a cost-benefit analysis. The main benefits are based on the reduction of electricity losses and the improvement in the reliability of the service. The results show an internal rate of return (IRR) between 58.3% and 108.1%, and a net present value (NPV) between US\$87.8 million and US\$276.6 million. A sensitivity analysis is performed under alternative scenarios that modify the main variables that can affect costs and benefits. The conservative scenario finds an IRR of 31.4%, with a NPV of US\$31.8 million.

The monitoring and evaluation plan proposes a reflexive evaluation (Before-After), which is appropriate given the nature of this intervention, and this is complemented by an ex post economic analysis.

The risks identified in the risk matrix seem reasonable and are classified as medium (10) and high (2) risks. Risks include mitigation actions and compliance indicators.

RESULTS MATRIX

Objectives	The general objective is to strengthen the National Transmission System (STN) by financing priority works in the ENEE investment plan. The specific objectives are to: (i) build capacity for interconnection with the Regional Electricity Market (MER), in order to make full use of the Central American Electric Interconnection System (SIEPAC); (ii) improve the ENEE's financial sustainability and institutional capacity; (iii) improve transmission quality by making electricity service more reliable; and (iv) facilitate transport of electricity generated with renewable energy projects to the STN.				
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Impact	Indicators	Unit	Base 2016	Final target 2023	Means of verification / calculation method
Reduced CO ₂ emissions factor in the electricity sector	Tons CO ₂ /MWh	Tons CO ₂ /MWh	0.63	0.55	Reports from ENEE's environmental research unit

Outcomes	Indicators	Unit	Base 2016	Final target 2023	Means of verification / calculation method
Improved quality and reliability of the transmission network in central and northern Honduras	Energy not supplied due to failures in the transmission system in northern Honduras over a one-year period	MWh	1,028	731	Dispatch management report on failures / \sum momentary load (MW) x amount of time equipment was disconnected from substations in northern Honduras
	Energy not supplied due to failures in the transmission system in central Honduras over a one-year period	MWh	1,713	1,170	Delivery management report on failures / \sum momentary load (MW) x amount of time equipment was disconnected from substations in central Honduras
Increased installed capacity for renewable electric power	Installed capacity for renewable energy	MW	1,596	2,000	ENEE monthly operations report
Increased generation of renewable energy as a percentage of total energy	Share of renewable energy in the generation matrix	%	49	53	Annual energy report from management
Increased supply of energy due to a reduction in dispatch failures	Energy added to transmission system, previously not dispatched	GWh/year	0	70	Annual energy report from management
Increased availability of energy for transactions on the MER	MER import capacity from Guatemala to Honduras	MW	60	100	Regional operator's report on maximum transfer capacity
Increased operational and financial capacity of ENEE Transmission Increased financial capacity of ENEE Transmission	Financial statements without disclaimer of opinion	Financial statement without disclaimer of opinion	0	1	Report on financial statements audited by independent firms ¹
	EBITDA (earnings before interest, taxes, depreciation, and amortization) margin	%	*	*	EBITDA margin = EBITDA / operating income EBITDA = operating profit ratio + depreciation + amortization Financial statements audited by independent audit firms
	Increase in energy ² sold on the SIN, due to the optimization of energy dispatch	GWh	0	260	System operator's report

* The EBITDA baseline and final target will be defined once the first audited financial statements of ENEE Transmission are issued.

¹ The ENEE has not had the capacity to issue auditable financial statements. A disclaimer of opinion has been issued in the last three fiscal periods.

² Refers to lower cost energy produced by power plants, which, due to transmission constraints, cannot be dispatched.

Outputs/indicators	Unit	Base 2016	2018	2019	2020	2021	2022	2023	Final target	Means of verification
Component 1. Expansion of transmission infrastructure										
Substations expanded	Number	0				1	1		2	Six-monthly project status report prepared by the ENEE
Substations built	Number	0					6		6	
230 kV transmission lines built	km	0				48			48	
138 kV transmission lines built	km	0					6.1		6.1	
Component 2. Institutional strengthening of ENEE										
Strategic plan for financial and operational sustainability of ENEE Transmission, developed and implemented	Plan	0						1	1	Six-monthly project status report prepared by the ENEE
Communication and corporate image strategy, developed and implemented	Strategy	0						1	1	
Accounting and financial report for transparency and accountability, issued	Report	0						1	1	
Plan to strengthen the Environmental Division, designed and implemented	Plan	0						1	1	
Corporate policy on gender at ENEE Holding, including ENEE's transmission company	Policy	0				1			1	
Training in management and administration, operations and logistics, effective communication, and energy provided to ENEE technical teams, managers, and logistical personnel	Training events	0				3	1		4	
Monitoring, contract management, and procurement plans implemented	Plan	0						3	3	

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Honduras

Project name: HO-L1186. Support for the National Electricity Transmission Program

Executing agency: National Electric Power Company (ENEE)

Fiduciary team: Nalda Morales, financial management; María Cecilia del Puerto, procurement (FMP/CHO)

I. EXECUTIVE SUMMARY

- 1.1 The risk factors related to institutional capacity in Honduras's public sector for operations during the period covered by the Bank's current country strategy are mitigated by various actions to provide technical support and institutional strengthening in the public sector. Risks related to fiduciary management systems are mainly in modernizing the institutional framework and incorporating the Integrated Financial Management System (SIAFI) into the budgeting, treasury, accounting, and reporting subsystems, and developing and implementing the Module for Executing Units of Externally Financed Projects (UEPEX) currently used to issue financial statements and disbursement requests, reconcile the advance payment account, and issue other financial reports required by the Bank. Internal government auditing has been strengthened in some institutions that execute Bank operations, but its use is limited. The external control function of the Tribunal Superior de Cuentas [National Audit Office] (TSC) has undergone a strengthening process, leading to the signing of a strategic partnership agreement in 2014 to promote its use in financial audits of Bank-financed operations in Honduras, in addition to the use of private auditing firms. As for the public procurement system, Honduras's strengths were identified in the 2010 diagnostic assessment using the Methodology for Assessing Procurement Systems of the Organization for Economic Cooperation and Development, particularly in the alignment of its legal framework with the majority of international best practices. The country still faces challenges, however, in meeting standards that would allow the Bank to use the country system in Bank-financed operations. The Bank has supported the effort to update the aforementioned diagnostic assessment this year, but this updated assessment has not yet been released. The report noted significant progress from the previous assessment, but not enough for the country system to be adopted across the board.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 The executing agency for the operation is ENEE. Empresa Nacional de Energía Eléctrica [National Electric Power Company] has implemented SIAFI with its budgeting, accounting, and treasury subsystems and UEPEX in the financial and accounting management of loan operations 3103/BL-HO and 3435/BL-HO, in addition to operations 1584/SF-HO and 2016/BL-HO, both of which were completed in 2014. By law, the system is mandatory for financial and accounting management of externally financed operations in the Honduran public sector.

- 2.2 In view of the institutional analysis of the executing agency, which revealed a low level of fiduciary capacity, the current execution arrangement featuring ENEE's program coordination unit (PCU) will continue to be used. This will foster continuity in the current PCU for fiduciary execution, with the ENEE counterpart in technical management. Given its current volume of operations, the PCU needs to be strengthened with specialized consultants for this new operation.
- 2.3 As noted above, Honduras's country procurement system has not been approved by the Bank. Therefore, maintaining personnel with extensive experience in implementing the Bank's procurement policies in the PCU will mitigate any potential risks in implementation. Nevertheless, procurement processes will still be posted for nationwide dissemination on HonduCompras, the government's official site for announcing government procurement opportunities. The standard documents agreed upon by the Bank and the Government Procurement Regulatory Office (ONCAE) for national competitive bidding (NCB) and shopping will also be used.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 On the basis of available information and in view of the continuation of the combined PCU-ENEE execution arrangement, the fiduciary team has determined that the project risk associated with financial and procurement management is MEDIUM.
- 3.2 The main fiduciary risks are related to the increased workload for the ENEE's technical and fiduciary units. These risks are mitigated by the executing agency's extensive experience in using SIAFI/UEPEX and related internal controls. In addition, the current PCU will be strengthened by hiring fiduciary specialists, whose job descriptions and terms of reference will be agreed upon with the Bank. The financial and fiduciary oversight system will include annual auditing services with preliminary midyear reports, which will support the monitoring of fiduciary management and the evolution of these risks.
- 3.3 The risks identified in the executing agency's capacity to conduct procurement processes in accordance with Bank policies will also be mitigated by maintaining specialized procurement personnel throughout the operation in the PCU, which will be responsible for fiduciary execution. A monitoring system that includes procurement planning will also be included with a view toward achieving program objectives using the procurement plan execution system agreed upon with the Bank, which will reflect the other planning instruments (multiyear execution plan, annual work plan). The PCU will closely monitor timelines to ensure that processes are moving forward, particularly in developing and approving technical specifications with the requisite level of quality.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACTS

- 4.1 The considerations for the special provisions of the loan contract are as follows:
 - a. **Special contractual conditions precedent to the first disbursement of the loan proceeds:** (i) a subsidiary agreement between the borrower and the ENEE has entered into force, establishing the terms for transfer of the loan proceeds, as well as other execution-related obligations; (ii) the [program Operations Manual](#) has been approved on the terms previously agreed upon with the Bank; (iii) the program coordination unit (PCU) retains the current core

staffing level and supplements it by engaging a financial specialist, at least one procurement specialist, two technical assistants, a contract monitoring specialist, and a social specialist. These consultants will be engaged in accordance with the job descriptions and terms of reference to be agreed upon with the Bank, in order to ensure that the PCU has the necessary staffing for program execution at all times.

- b. **Exchange rate agreed upon with the executing agency/borrower for accountability reporting.** For the purposes of Article 4.10(b) of the General Conditions of the loan contract, the applicable exchange rate will be as indicated in paragraph 4.10(b)(ii). The exchange rate to be used will be the rate in effect on the date the beneficiary, executing agency, or other authorized person or entity makes the corresponding payment.
- c. **Financial statements and other audited reports.** The executing agency will deliver the following reports: within 120 days after the end of each fiscal period of the executing agency, which runs from 1 January to 31 December of each year, and during the disbursement period for the financing, the project's audited financial statements issued by independent auditors acceptable to the Bank. The last of these reports will be delivered within 120 days after the agreed date of the last disbursement, or the date agreed upon with the Bank. The Bank may require the delivery of six-monthly preliminary reports or reports at some other frequency as dictated by changes in fiduciary risk.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The fiduciary agreements and requirements for procurement apply to all project procurement processes.

A. Procurement execution

- 5.2 The executing agency, acting through the PCU, will execute selection, contracting, supervision, and reception processes for project procurement activities, which will be conducted in accordance with the Bank's procurement policies (documents GN-2349-9 and GN-2350-9) and the procurement plan for the operation. The procurement plan will describe: (i) contracts for works, goods, and nonconsulting services to meet project objectives; (ii) proposed methods for the procurement of goods and selection of consultants; and (iii) procedures used by the Bank to review each procurement process. For procurement planning, the executing agency will update the procurement plan on an annual basis or as needed for the project, using the procurement plan execution and monitoring system chosen by the Bank, both for planning and for reporting progress. Any changes to the procurement plan must be submitted to the Bank for approval. The PCU and the Bank will agree on a procurement plan for the first 18 months of the operation.
- 5.3 **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services¹ under the project that are subject to international competitive bidding (ICB) will use the standard bidding documents issued by the Bank. Bidding processes subject to national competitive bidding (NCB)

¹ Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9), paragraph 1.1: Nonconsulting services are treated as goods.

- will use national bidding documents agreed upon with the Bank and will be posted to [ONCAE's website](#).
- 5.4 PCU personnel may be engaged through single-source selection for the sake of continuity in services provided on operations previously financed by the Bank and executed by the ENEE, contingent on a positive performance evaluation, in accordance with the Bank's procurement policy document GN-2350-9. Direct contracting will be used to purchase special licenses for energy operations, in amounts ranging from US\$5,000 to US\$40,000. These licenses will be bought from the developers of each software application, which hold the respective ownership rights, to comply with the Bank's procurement policies (document GN-2349-9, paragraph 3.6.c, on goods obtainable from only one source).
- 5.5 **Selection and contracting of consultants.** Consulting service contracts for the project will be executed using the standard request for proposals issued by or agreed upon with the Bank.
- 5.6 **Selection of individual consultants.** If no consultants are known to be suitable recipients of an invitation to bid on a consulting contract, at the executing agency's discretion, local or international publicity may be used to procure the services of individual consultants for the purpose of assembling a short list of qualified individuals. Consultants engaged to assist the executing agency during the execution period may be commissioned for the entire execution period by securing a no objection to the initial competitive procurement process, with no need for a no objection for each budgetary period, regardless of whether more than one contract is signed for each period. This is notwithstanding the possibility that a performance evaluation could lead to termination of the consulting contract and, as a result, in the need for a new request for a no objection to the new process.
- 5.7 **Advance procurement.** The operation allows for the possibility of moving ahead of schedule, at own risk, on the first bidding process for works and the corresponding supervision, using the selection methods established in the Bank's policies, which will be examined by the Bank in considering eligibility for financing of subsequent contracts. However, these works are not expected to be awarded, and the contracts signed, until after the operation becomes eligible.
- 5.8 **Domestic preference.** No domestic preference will be included.
- B. Thresholds (US\$ thousands)**
- 5.9 The ICB thresholds and the short list of international consultants will be made available to the executing agency at www.iadb.org/procurement. Under these thresholds, the selection method will depend on the complexity and nature of the procurement process, which will be reflected in the procurement plan approved by the Bank.
- C. Main procurement items**
- 5.10 The executing agency, acting through the execution unit, will be responsible for preparing the procurement plan,^{2 3} and the Bank's procurement specialist will

² Document GN-2349-9, paragraph 1.16, and document GN-2350-9, paragraph 1.23: The borrower shall prepare and, before loan negotiations, furnish to the Bank for its approval, a procurement plan acceptable to the Bank for at least the first 18 months.

³ See [Guidelines for preparation and implementation of procurement plans](#).

provide assistance to ensure that procedures are in compliance with the Bank's procurement policies. The main procurement items for this operation are summarized below. See the [general procurement plan](#).

Table 1. Main procurements

Activity	Procurement method	Estimated date	Estimated amount (US\$)
Works			
Expansion of San Pedro Sula Sur (SPSS) substation, expansion of San Buenaventura (SBV) substation, and construction of 230 kV SPSS-SBV transmission line.	ICB	December 2018	35,594,945
Contracting of works: lot 1. Projects in central Honduras and lot 2. Project in northern Honduras.	ICB	August 2019	90,294,998
Consulting firms⁴			
External supervision: expansion of SPSS and SBV substations and construction of 230kV SPSS-SBV transmission line.	QCBS	February 2018	7,550,000
Goods			
Procurement of equipment to strengthen ENEE supervision and maintain ENEE's transmission system.	ICB	October 2019	2,284,000

D. Procurement supervision

- 5.11 In accordance with the analysis of procurement-related fiduciary risk, a combination of ex post and ex ante reviews will be used in accordance with the procurement plan.
- 5.12 The Bank will conduct ex ante supervision of any single-source selection for consulting services to be provided by firms or individuals, as well as any procurement of nonconsulting services, goods, or works, regardless of the contract amount.

E. Special provisions

- 5.13 **Measures to reduce the likelihood of corruption.** The provisions of documents GN-2349-9 and GN-2350-9 related to prohibited practices (multilateral agency lists of ineligible firms and individuals) will apply.
- 5.14 **Other special procedures.** The Bank may, at its discretion, change the procurement supervision method on the basis of experience in execution, updates to the institutional capacity assessment, or fiduciary visits.

F. Records and files

- 5.15 The PCU will be responsible maintaining files and original supporting documentation for procurement processes carried out with project resources, as well as for maintaining records in accordance with established procedures. The Operations Manual will document the internal work flows and separation of responsibilities.

⁴ For consulting services, this means that the short list will consist of consulting firms from multiple countries. See document GN-2350-9, paragraph 2.6.

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 6.1 **Programming and budget.** Implementation of the SIAFI and the single treasury account has helped achieve a more prudential and disciplined management of cash resources and greater decentralization of treasury functions. In certain cases, budgetary reprogramming and increases for externally financed projects do not require legislative approval, but they do require agreements and amendments that may be approved by the Ministry of Finance, subject to budget availability. This subsystem will be used for budgetary management of the operation.
- 6.2 **Accounting and information systems.** The SIAF/UEPEX module is used for financial reports and accountability reporting on Bank-financed projects. The project's financial and accounting transactions will use the practices of this country system. Cash-based accounting will be used.
- 6.3 **Disbursements and cash flow.** The executing agency will open a special account in the operation's name at the Central Bank of Honduras for disbursements. The maximum amount of each advance of funds will be set by the Bank in accordance with the cash flow analysis or financial plan for the period of months to be agreed upon with the executing agency. Since the annual process of adding or modifying budget items is subject to delays, it is recommended that the accountability reporting percentage for advances of funds should be for 70%.
- 6.4 **Internal control and internal audit.** The Bank and the National Office for Integrated Development of Internal Control of Public Institutions are currently coordinating efforts to improve the internal control environment at entities responsible for Bank-financed operations in Honduras, as well as the use of internal audit units as these institutions are strengthened by the Bank. They are not expected to be used on this particular operation.
- 6.5 **External control and reports.** External audits of the operation may be conducted by the National Audit Office (TSC) or a Bank-eligible external auditing firm.
- 6.6 In view of the foregoing considerations, the following financial agreements and arrangements will apply:
 - a. Annual external financial auditing services and preliminary reporting with cutoff dates agreed upon with the Bank will be used.
 - b. The Financial Management Policy for IDB-financed Projects (document OP-273), the instructions for disbursements, and the instructions on financial reporting and external audit management in effect on the operation approval date will apply.
 - c. The financial audit will cost an estimated US\$150,000 and will be financed with loan proceeds. The selection and contracting of auditing services will be in accordance with the method and terms of reference agreed upon with the Bank.
- 6.7 **Financial supervision plan.** The Bank will supervise financial management of the project by monitoring the borrower's and executing agency's actions, in order to resolve any issues identified in the external audits. The Bank will also conduct visits and hold meetings to monitor implementation of the recommendations from external audits and monitor fiduciary risks. Supervision will be carried out by the Bank's financial management specialist assigned to the operation, with support from external auditors and consultants and in coordination with the Project Team Leader.

Disbursements will be reviewed on an ex post basis as part of the external auditing work to be commissioned.

- 6.8 **Execution mechanism.** ENEE will execute the project using the PCU currently executing loan operations 3103/BL-HO and 3435/BL-HO. PCU staffing will be supplemented with fiduciary and monitoring specialists who satisfy the job descriptions and terms of reference acceptable to the Bank.
- 6.9 **Other financial management agreements and requirements.** The fiduciary risks identified in preparing the project will be monitored, and strengthening actions will be proposed to provide a reasonable assurance of effective and efficient use of resources. The fiduciary arrangements will be modified as needed to achieve this objective.

SUPPORT FOR THE NATIONAL ELECTRICITY TRANSMISSION PROGRAM

HO-L1186

CERTIFICATION

The Grants and Co-Financing Management Unit (ORP/GCM) certifies that the operation received the letter of commitment for financing by the Fund **Strategic Climate Fund (SCX)** for up to **US\$5,000,000** confirmed by Alvaro Flores (ORP/GCM), June 28, 2018.

Certified by:

Original Signed

07/06/2018

Sonia M. Rivera

Date

Chief

Grants and Co-Financing Management Unit
ORP/GCM

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/18

Honduras. Loan ____/BL-HO to the Republic of Honduras
Support for the National Electricity Transmission Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Honduras, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the project "Support for the National Electricity Transmission Program." Such financing will be chargeable to the Bank's Ordinary Capital (OC) resources in the following manner: (i) up to the amount of US\$60,000,000, subject to concessional financial terms and conditions ("Concessional OC"); and (ii) up to the amount of US\$90,000,000, subject to financial terms and conditions applicable to loan operations financed from the Bank's regular program of OC resources ("Regular OC"), as indicated in the Project Summary of the Loan Proposal, and subject to the Special Contractual Conditions of said Project Summary.

(Adopted on ____ 2018)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/18

Honduras. Loan ____/SX-HO to the Republic of Honduras
Support for the National Electricity Transmission Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, as implementing entity of the Scaling Up Renewable Energy Program in Low Income Countries (SREP) of the Strategic Climate Fund (SCX), to enter into such contract or contracts as may be necessary with the Republic of Honduras, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the project "Support for the National Electricity Transmission Program." Such financing will be up to the amount of US\$5,000,000, chargeable to the resources of the SCX/SREP, administered by the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2018)