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ANNEX

to the Commission Implementing Decision on the financing of the annual action plan in favour of Honduras for 2023

Action Document for VPA & Beyond: Voluntary Partnership Agreement, Forest Partnership and Green Business

Annual PLAN

This document constitutes the annual work programme within the meaning of Article 110(2) of the Financial Regulation, within the meaning of Article 23 of the NDICI-Global Europe Regulation.

1. SYNOPSIS

1.1 Action Summary Table

1. Title CRIS/OPSYS business reference Basic Act	VPA & Beyond: Voluntary Partnership Agreement, Forest Partnership and Green Business OPSYS number: ACT-61925 (Strengthen Forest Governance, build Forest Partnership and promote Green Businesses) Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
2. Team Europe Initiative	Yes, contributes to TEI Honduras Green Recovery-Climate Change and Natural Resource Management
3. Zone benefiting from the action	The action shall be carried out in Honduras
4. Programming document	Multiannual Indicative Programme (2021-2027) Honduras
5. Link with relevant MIP objectives / expected results	MIP 2021-2027 <ul style="list-style-type: none"> ▪ Priority n°1: Sustainable Management of Natural Resources and Climate Change ▪ Priority n°2: Employment, Decent Work and Growth
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Areas, sectors	Forestry (312) Business Development Services (250)

7. Sustainable Development Goals (SDGs)	Principal SDGs Goal 13: Climate Action (target 13.1 ¹ , 13.b ²) Other significant SDG(s) Goal 8: Decent Work and Economic Growth Goal 15: Life on Earth (targets 15.4 ³ , 15.1 ⁴ , 15.2 ⁵) Goal 5: Achieve gender equality and empower all women and girls (5.a. ⁶) Goal 16: Peace, justice and strong institutions Goal 12: Responsible consumption and production			
8 a) DAC codes	Main DAC code #1: 312: Forestry (70%) Sub code 11: 31220: Forestry Development (50%) Sub code 12: 31210: Forestry policy and administrative management (20%) Main DAC Code #2: 250: Business and other services (30%) Sub code 21: 25030: Business Development Services (15%) Sub code 22: 16020: Employment creation (15 %)			
8 b) Main Delivery Channel ⁷	Channel 1: 11000 Other public entities in donor country Channel 2: 62002 Micro-Finance institutions			
9. Targets	<input type="checkbox"/> Migration <input checked="" type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input checked="" type="checkbox"/> Biodiversity <input type="checkbox"/> Education <input type="checkbox"/> Human Rights, Democracy and Governance			
10. Markers (from DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

¹ Strengthen resilience and adaptive capacity to climate related hazards and natural disasters in all countries.

² Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries, including women, youth and marginalized communities

³ Ensure the conservation of mountain ecosystems, including their biodiversity, in order to enhance provide benefits for sustainable development.

⁴ Ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, in line with obligations under international agreements.

⁵ Promote the implementation of sustainable management of forests, halt deforestation, restore degraded forests, and increase afforestation and reforestation.

⁶ Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance, and natural resources, in accordance with national laws.

⁷ Channels are indicated in the second and fifth columns of the tab 'Channel codes' in the following document: <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/dacandscodelists.htm>.

	Trade development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
11. Internal markers and Tags	Policy objectives	Not targeted	Significant objective	Principal objective
	Digitalisation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	digital connectivity digital governance digital entrepreneurship digital skills/literacy digital services	YES <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	NO <input checked="" type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	
	Connectivity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	digital connectivity energy transport health education and research	YES <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	NO <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	
	Migration (Methodology for tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities (Methodology for marker and tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Covid-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	BUDGET INFORMATION			
12. Amounts concerned	Budget line(s) (article, item): ACT-61925 Total estimated cost: EUR 23 400 000 Total amount of EU budget contribution EUR 23 400 000			

MANAGEMENT AND IMPLEMENTATION	
13. Type of financing	<p>Direct management through:</p> <ul style="list-style-type: none"> - Grant - Procurement <p>Indirect management with the entity(ies) to be selected in accordance with the criteria set out in section 4.4.3.</p>

1.2 Summary of the Action

The EU is widely recognised as a trailblazer on forest with its policies and legislation on illegal logging⁸ and the timber trade agreements (Voluntary Partnership Agreements) with tropical countries. In the aftermath of the 2019 Communication on Stepping up EU Action to Protect and Restore the World's Forests, the EU pledged EUR 1 billion on forests and the Commission President signed the first Forest Partnerships at UNFCCC27, as part of the Global Gateway Strategy. In the meantime, the forthcoming EU Deforestation Regulation is raising the interest of partner countries, donors, EU Member States and international organisations, in working and coordinating with the EU on forests.

The “VPA & Beyond: Voluntary Partnership Agreement, Forest Partnership and Green Business” Action will focus on the forest sector, supporting Honduras in accomplishing:

1. Its binding legal requirements under the VPA FLEGT and seeking compliance with the forthcoming EU Deforestation Regulation (legality component);
2. Its non-binding goals under the potential future Forest Partnership (FP), under the Global Gateway Strategy (sustainability component); and
3. support to green business within this overall framework of the above bilateral agreements (enabling environment component).

Firstly, the Action will support the implementation of the EU-Honduras VPA FLEGT. Honduras was the first country in the Americas to enter into VPA negotiations. The VPA was ratified in 2021 and entered into force in September 2022. This bilateral trade agreement legally binds the EU and Honduras to address illegal logging and associated trade, aiming at making the timber exported to the EU legally produced. Key implementation steps, such as the crucial Timber Legality Assurance System (TLAS), which is at the heart of the VPA FLEGT, will be operationalized within this programme. This component of the Action will contribute to demonstrating compliance of the wood value chains with the requirements under the Deforestation Regulation. Honduras has voiced strong concerns over the forthcoming Deforestation Regulation, as shown by the Ambassadors to the EU co-signing a letter to the Presidents of the EU Institutions on the 22 of July 2022. In this letter, Honduras – together with other key producers' countries – described the Deforestation Regulation as punitive, discriminatory and unilateral. The average exports of Honduras to the EU for the seven focal commodities under the Deforestation Regulation represent of 3.77% of GDP in terms of value.

Secondly, this Action will support activities to pave the way for the potential FP. FPs encompass the EU's holistic cooperation framework for joint work on forests, aimed at reversing deforestation in supported countries and consequently enhance climate and biodiversity protection. In July 2022, the Commissioner Jutta Urpilainen proposed to the Honduran President Xiomara Castro to further engage in the forest sector under a FP. Honduras' interest in such partnership was confirmed at UNFCCC 27 in November 2022 and in writing by the *Secretaria de Relaciones Exteriores y Cooperacion Internacional* in March 2023. The Memorandum of Understanding, also through this Action, will contribute to reaching the ambitious targets of Honduras under the Climate Change Agenda, established under the Paris Agreement through

⁸ EU FLEGT Action plan (COM (2003) 251 final), EU Timber regulation (No 995/2010)

implementation of National Determined Contributions or the Convention on biodiversity through the implementation of the National Biodiversity Action Plan. In addition, the FPs could represent an attractive instrument in the context of the Regulation on Deforestation in addressing its sustainability requirements.

Thirdly, this Action will promote private sector activities linked to the forest sector, hence will support Green Businesses. It will do so especially by fostering an enabling environment to create and develop Small and Medium Enterprises (SMEs) related to forest-related value chains. Under EFSD+, the EDFI Carbon Sink Global Guarantee programme has reserved EUR 97 million to Honduras, in case of viable programmes. This would cover restoration, development of planted forests and forest-based value chains. With a ticket size ranging from EUR 5 to 25 million, this also covers SMEs in the forest sector.

In brief, with the **overall objective** to enhance the sustainable contribution of Honduras' forest resources to national inclusive economic growth and to global efforts to address climate change, this Action has a 3-fold purpose:

1. Strengthen inclusive Forest Governance through the implementation of the Voluntary Partnership Agreement (VPA FLEGT);
2. Build an inclusive Forest Partnership through sustainable forest management, forest restoration and ecotourism;
3. Promote Green Businesses through strengthening forest-related value chains.

All these objectives and corresponding activities have been jointly agreed upon with the GoH and key stakeholders of the related sectors.

The action is aligned with the main EU policies in the forest sector – Green Deal⁹, Stepping up EU Action to Protect and Restore the World's Forests¹⁰, Farm to Fork Strategy¹¹, Biodiversity Strategy 2030 and the Circular Economy Strategy¹² – while directly contributing to several programmes, forest and biodiversity policies of Honduras. The Action will contribute to the EU Gender Action Plan III (2021-2025) and specifically to its overall objective: “Women in all their diversity influence decision-making processes on environmental conservation and climate change policies and actions” and will implement a rights-based approach with regard also indigenous peoples, Afro-descendants and vulnerable populations.

At national level, the TEI-Honduras Green Recovery-Climate Change and Natural Resource Management has been revised among the stakeholders and final version is with the Member States' hierarchies for endorsement since March 2023. The current action matches the following TEI priority areas *Preserving and Restoring Ecosystems and Biodiversity* (VPA FLEGT, safeguarding ecosystems/biodiversity and human rights approach) and *Mobilising Public and Private Sectors for Clean and Circular Economy* (incentives for MSMEs). It also represents 23% of the financial overview for these two priorities and give continuity to some TEI actions about to conclude. The commitment of the EU's contribution to the TEI to which this Action refers, will be complemented by other contributions from Team Europe members. It is subject to the formal confirmation of each respective member's meaningful contribution as early as possible. In the event that the TEIs and/or these contributions do not materialise, the EU Action may continue outside a TEI framework.

From a regional perspective, the action will also seek synergies with the regional EU Five Great Forest Initiative and the AFOLU 2040 Strategy. At UNFCCC 27, the EU announced that is stepping-up support (total EUR 25.5 M) to the Five Great Forest Initiative. There is also commitment to mobilising additional support in the form of a Team Europe Initiative.

⁹ COM(2019) 640

¹⁰ COM(2019) 352

¹¹ COM(2020) 381

¹² COM(2020) 98

The implementation of the programme will be closely aligned to EU funded programme “Support for the implementation of the FLEGT VPAs” (INTV-15274) implemented by the French Development Agency (AFD). It will also be closely coordinated with the roll-out of the FP.

2. RATIONALE

2.1 Context

1. Forests

Forests cover 64 million hectares of Honduras and represent **57% of the total land area**. Tropical rainforests constitute 57% of forest areas, coniferous 36%, and 7% is made of other types of forests, such as mangroves, dry tropical forests and mixed (pastoral, agroforestry). Honduras’ forests are old and prone to extinction, in that they do not replenish quickly enough to compensate for their rate of destruction.

Honduras has lost 9% of its forests in the last 30 years. The forest cover decreased from 7 million hectares in 1990 to 6,4 million ha in 2020 (FAOFRA, 2020). Annually, 21,000 hectares are deforested, at the rate of 0,3%. Man-made causes include illegal logging, drug trafficking, agriculture and cattle ranging activities. Each year, 24,000 ha of forest are lost. Non-man-made causes are forest fires and pest infestation (*gorgojo*), for which the EU has provided support (pine-beetle infestation’s control). Forestland tenure’s types are private (35%), indigenous (3%), state (27%), municipal (4%) and community (10%), while the remaining 21% has not yet been assessed. Human activity occurs in 80% of the forest area with the intrusion of illegal loggers, drug traffickers, immigrants passing through from Latin America to USA, and poor families seeking to alleviate their poverty by developing pastoral activities. These unsustainable activities are all threatening Honduras’ forests, putting at risk the pivotal role that they play in maintaining the biological richness of the region, grabbing carbon, providing water and avoiding soil erosion.

Economically, the forest sector amounts to **3.6% of the GNP** (Gross national product). Since 2010, import values of timber products have risen by 6%, while exports have risen by 62%. Exports to the **EU account for a mere 1.7%** of the total, while the **USA, Caribbean and Central American countries** remain the main export markets, accounting for **98.3%** of total exports’ value. It is estimated that between 30% and 50% of that timber production and its trade would be illegal, offering a price between 40% and 90% less expensive than the legal producers. This unfair competition directly threatens the legal forest economy, as well as the tax incomes for a State that dearly needs it. It is also a huge vector of corruption, and has links with the drug trafficking underground economy, that also puts people, firms and the State at risk.

2. Business & Employment

Unemployment and underemployment mainly affect women, youth and ethnic minorities. In turn, it pushes them towards irregular migration. The share of employed working age men is 75.5% while only 44.6% of working age women are employed (out of 3.7 million women).¹³ Honduras, a lower middle-income country, has an estimated predominantly young population of 9.5 million inhabitants, with 36.9% of the total population being under 19. It is **one of the poorest and most unequal countries in the Western Hemisphere**. Gender Inequality is among the highest in the continent (GINI Index:0,51). COVID-19 pandemic, coupled with two Category 4 hurricanes —Eta and Iota— in 2020, led to a sharp

¹³ Labour market figures as indicated in the National Statistics Institute (INE) LXXIV National Household and Multiple Purposes Survey, June 2022.

GDP decline of 9 %, while income and employment sank, with about 400,000 people losing their jobs during that year.

Prior to the twin shocks of 2020, 25.2 % of the population already lived in extreme poverty and almost half (4.4 million people) lived in poverty. However, poverty and inequality levels are likely to remain higher than pre-crisis levels. Human development outcomes are among the lowest in the Latin America and Caribbean (LAC) region. On the positive side, Honduras has multiple strengths: a potential for faster growth and higher shared prosperity, due to its strategic location, a growing industrial base, ongoing efforts to diversify its exports, and a young and growing population. Honduras' economy rebounded to a 12.5 % growth in 2021 and is expected to grow a 3.1 % in 2023.

2.2 Problem Analysis

Short Problem analysis:

- Honduras has lost 9% of its forests in 30 years. The forest cover decreased from 7 million hectares in 1990 to 6.4 million ha in 2020 (FAOFRA, 2020). Annually, 21,000 hectares are deforested, at the annual rate of 0,3%.
- The forest cover is rapidly reducing, with the associated loss of forest products and ecosystem services, due to multiple drivers of deforestation (illegal logging, agriculture, cattle ranging, forest fires and pest infections).
- Since 2013, 500,000 ha of pine forests, almost a quarter of the pine area (10% of the national forest area) in the country have been lost (devastated, very degraded) due to pine bark beetle outbreaks (Pine Tress). The beetle outbreaks were attributed to a protracted drought caused by El Niño and aggravated by a lack of maintenance of the forests.
- Forest fires are mostly man-driven, as technic to burn biomass and convert forest into grazing or cultivation land. Between 24,000 and 90,000 ha per year were affected (2010-2020 data), i.e. between 0.4% and 1.7% of forest cover; most are man-made to convert forest to grazing or agricultural land.
- This is compounded by weak capacities to enforce environmental legislation, the presence of organised crime (connected to drug trafficking), incremented violence against human rights and environmental defenders and indigenous peoples. Illegal logging of precious hardwoods, especially mahogany is closely related to drug trafficking, and may amount to 50-60% of wood harvest. Much of it takes place in the north-eastern natural reserves where drug trafficking has also found a home. Drug trafficking groups are known to double in timber trafficking (Insight Crime, 2019).
- Moreover, women, indigenous peoples and Afro-descendants are often impacted disproportionately by the effects of vulnerabilities and are prevented from participating equally in related governance processes and in decision making. At regional level, the trends are also similar.
- There is broad recognition among stakeholders in Honduras that land tenure is one of the key challenges to address in improving forest governance. At present, several government bodies have responsibilities for land tenure, hindering effective and coherent land tenure policy and implementation. Land conflicts are a major source of human rights abuses in Honduras. The VPA

is bringing such challenges to the fore through the active participation of all stakeholders, and has a strong focus on human rights.¹⁴

- Land tenure is very unequal and small plot holders are most affected by tenure insecurity. Women face discrimination in access to and control of land¹⁵. According to FAO¹⁶, women comprise only 4% of the beneficiaries of land in 30 years of the agrarian reform process and only 22% of those own a land title and women's plot tend to be very small.

Underlying causes are high poverty incidence, drug trafficking, poor law enforcement and land tenure uncertainty.

In addition to these, Honduras has voiced strong concerns over the forthcoming EU Deforestation Regulation, as shown by the Ambassadors to the EU co-signing a letter to the Presidents of the EU Institutions on the 22 of July 2022. In this letter, Honduras – together with other key producers' countries – described the Deforestation Regulation as punitive, discriminatory and unilateral.

The average exports of Honduras to the EU for the seven focal commodities under the Deforestation Regulation represent of 3.77% of GDP in terms of value. There is a risk that timber supply chains to the EU would not be able to comply with the requirements of the Deforestation Regulation,

A range of issues will need to be addressed when aiming at restoring the forest cover in a lasting way.

It is also clear that addressing this full set of issues exceeds the capacity of a single project or actor and requires a strong policy dialogue.

To respond to this complex situation, the EU is committed to supporting Honduras' forest sector under binding and non-binding instruments as well as supporting an enabling business environment. The EU global leadership on fighting climate change, deforestation and biodiversity loss is widely recognised in the country as well as in the region. Honduras is the first nation in Latin America with which the EU succeeded in signing a VPA FLEGT, which has entered into force and aims to address illegal logging and associated trade. Honduras also intends to broaden its cooperation on forests by engaging with the EU in a Forest Partnership, moving beyond timber and legality.

VPA FLEGT

In 2010, Honduras developed a strategy to fight illegal logging (*Estrategia Nacional contra la Tala Ilegal*). The implementation of this strategy was one of Honduras' main reasons to enter into VPA negotiations, which started in January 2013. The VPA FLEGT was ratified in 2021 and entered into force in Honduras on 1 September 2022. After 10 long years of negotiations, Honduras has officially entered the implementation phase after the entry into force of this legally binding agreement between Honduras and the EU. Hereby, Honduras became the first Latin American country to negotiate and implement a VPA with the European Commission.

The level of stakeholder participation in the VPA process in Honduras is unprecedented. Representatives of the Government, civil society, the private sector and indigenous peoples have actively participated in negotiations and committed to maintaining their engagement throughout implementation. The VPA process is, therefore, a vehicle for addressing the needs of different stakeholders and for including many people who have never before had a voice in decision making. In Honduras, stakeholder consultations are increasingly becoming a standard for developing legislation in the forestry sector.¹⁷

¹⁴ From: <https://flegtvpafacility.org/countries/honduras/background/>

¹⁵ <https://documents-dds-ny.un.org/doc/UNDOC/GEN/G20/055/81/PDF/G2005581.pdf?OpenElement>

¹⁶ <https://www.fao.org/3/v9650e/v9650e06.htm>

¹⁷ From <https://flegtvpafacility.org/countries/honduras/background/>

The implementation of a VPA requires substantial investments and continuous, well-targeted technical and financial support. The implementation started through the EU funded programme “Support for the implementation of the FLEGT VPAs” (INTV-15274) implemented by the French Development Agency (AFD) as well as through the MIP Honduras/Annual Action Plan 2021.

This Action will enable to operationalize it with essential activities, starting by the strengthening of the VPA-related institutions, and supporting the entities which are the day-to-day forest managers and timber producers (the forest private sector). It will continue supporting the civil society organisations and the indigenous peoples, including Afro-descendants.

Within this framework, this Action will develop one of the core and most challenging parts of the VPA: the Timber Legality Assurance System (TLAS). Finally, ensuring legality of timber production cannot be done without a proper land titling and registration system, which is why this Action also needs to tackle it in its area of intervention.

Forest Partnership

Beyond the legality aspect of the timber value chain, this Action intends to cover the sustainability aspects of the forest sector, under the Global Gateway strategy - hence “beyond the VPA”.

Forest Partnerships encompass the EU's holistic cooperation framework for joint work on forests, aimed at reversing deforestation in supported countries and consequently enhance climate and biodiversity protection.

In July 2022, the Commissioner Jutta Urpilainen proposed to the Honduran President Xiomara Castro to further engage in the forest sector under a Forest Partnership. Honduras interest in such partnership was confirmed at UNFCCC 27 in November 2022 and in writing by the *Secretaria de Relaciones Exteriores y Cooperacion Internacional* in March 2023. The Memorandum of Understanding, will contribute, including through this Action, to reaching the ambitious targets of Honduras under the Climate Change Agenda, established under the Paris Agreement through implementation of National Determined Contributions or the Convention on biodiversity through the implementation of the National Biodiversity Action Plan. In addition, the FP represent an attractive instrument in the context of the Regulation on Deforestation in addressing the sustainability requirements while informing the benchmarking system and helping Honduras to achieve a low-risk assignment.

Green Businesses

It is within this complex evolving context that forest-related businesses need to prosper in a sustainable and inclusive manner. Moreover, the VPA process strengthens the capacity of representatives from Government, the private sector, civil society and indigenous peoples to work together to address illegality in the Honduran forest sector. Dedicated regional platforms built the capacity of local stakeholders to engage with the VPA process.¹⁸

Today, green businesses are not competitive, the investments in that area are at high risks and, very importantly, finance does not reach the smallholders and micro and small enterprises (MSEs).¹⁹ In this sense, the action expects to underpin local efforts to strengthen productive value chains; improve access to credit and technical assistance to producers and MSE owners; and improve access to sustainable innovations to enhance goods and services production under the agricultural, forest and tourism value chains while

¹⁸ From: <https://flegtvpafacility.org/countries/honduras/background/>

¹⁹ Access to technical assistance and financial services for MSEs is limited, resulting in informal economic units. Informality is an important characteristic that prevents the promotion and survival of MSEs and affects the quality of employment they generate. Therefore, it is necessary to provide differentiated attention to MSEs that operate in an informal condition and those that already have some degree of formality.

contributing to boost productivity and competitiveness of Honduran micro and small businesses in a favourable entrepreneurial environment.

MSE business activities can have a negative effect on the environment through air and water pollution, the disposal of waste, or the overuse of natural resources, among others since their operation greatly depends on the environment. By “greening” their business activity, MSE will develop the capability to access natural resources (land, energy, or water) to produce environmentally friendly products or to offer environmentally friendly services. Hence, MSE become active stakeholders in the environment protection while making a profit and becoming competitive. Greener processes also lead to other benefits such as cost savings and productivity increases, meaning going green makes good business sense. Due to territorial specific production and value chains, the action will also include non-wooden products particularly in the agricultural sector.

Also, building SMEs’ capacities to foster investment and exports as well as creating stronger opportunities for entrepreneurs may expand their access to EU and international markets, will improve income generation for entrepreneurs, while supporting human and social capital and encouraging sustainable forest management.

Under EFSD+, the EDFI Carbon Sink Global Guarantee programme has proposed EUR 97 million to Honduras (still under negotiation), in case of viable programmes. This would cover restoration, development of planted forests and forest-based value chains. With a ticket size ranging from EUR 5 to 25 million, this also covers SMEs in the forest sector.

Identification of main stakeholders and corresponding institutional and/or organisational issues to be covered by the Action:

The main stakeholders of the Action are:

Duty bearers:

- The government of Honduras (GoH), in the framework of the current Action primarily represented by the *Instituto Nacional de Conservación Forestal, Áreas Protegidas y Vida Silvestre (ICF)*, is the national competent authority in charge of administering policies, in forest and protected areas. While the ICF has the mandate to oversee the implementation of the VPA, the VPA Agreement is a truly national process, and many other ministries and institutions are involved in its implementation. ICF will most likely also lead a potential Forest Partnership (FP);
- The public financial services institutions (Banhprovi, Banadesa);
- Municipalities and their organisations or local authorities’ associations named “mancomunidades,” and the national Association of Municipalities of Honduras (AMHON).

Private Sector:

- The private sector, including companies, small timber producers and their organisations and cooperatives (all the productive timber sector and agroforestry), protection and productive forest private landowners and their organisations;
- The private financial services institutions (commercial banks, financial development organizations (OFPDs), Rural Savings Banks);
- Other competent institutions dedicated to promoting SMEs growth such as the Honduran Private Enterprise Council (COHEP) and the National Association of Micro and Small Industry of Honduras (ANMPIH). Other donors which are currently funding forest programmes in the country.

Rights holders:

- Civil Society Organisations in all its diversity who will represent the different voices of groups of people and specially those living in the most vulnerable situations;
- The CDE-MIPYME network which represents 14 Entrepreneurial Development Centres for Micro, Small and Medium Enterprises (CDE-MIPYME);
- Women's organisations;
- Local communities, including indigenous and Afro-descendant peoples, and their respective organisations.

The participation of these stakeholders is critical in information and knowledge-gathering, cross learning, harmonisation and decision-making to ensure effective implementation of actions for the protection and sustainable use of the forests in Honduras.

3. DESCRIPTION OF THE ACTION

3.1 Objectives and expected outputs

Overall objective: to enhance the sustainable contribution of Honduras' forest resources to national inclusive economic growth and to global efforts to address climate change and loss of biodiversity.

Specific objective # 1: Strengthen inclusive Forest Governance through the implementation of the VPA FLEGT

Outputs	
1.1	The institutions of the VPA (such as SETAVA, JIC, SIIAVA and the National Committee) and the institutional capacities of the other agencies involved in the TLAS are strengthened
1.2	The Timber Legality Assurance System (TLAS) is developed along with the necessary regulatory framework, the forest sector procedures ²⁰ , and the IT systems and databases that facilitate its enforcement
1.3	The capacity of private sector operators to comply with forestry regulations is enhanced
1.4	Other VPA-accompanying measures are supported, including demonstrating compliance with the requirements under the Deforestation Regulation in the wood value chain
1.5	The land titling and regularisation is supported in the project area in consultation with local communities

Specific objective # 2: Build an inclusive Forest Partnership through sustainable forest management, forest restoration and ecotourism

Outputs	
2.1	Sustainable forest management is supported through incentives to the forest industry and to public/private forest owners (control norms and policy, certification, financial tools, capacity building, etc.)

²⁰ Which is expected to increase timber trade by 20% with the EU in the long term once the FLEGT licenses will be emitted.

2.2	Forest ²¹ afforestation, reforestation and restoration initiatives are supported as well as actors' availability and use of data sets for e.g. climate finance; Agriculture, Forestry and Other Land Use Measurement, Reporting and Verification (AFOLU MRV); Nationally Determined Contributions (NDCs) etc).
2.3	Responsible ecotourism in Protected Areas is developed
2.4	Support the implementation of the Zero-Deforestation EU Regulation for agricultural commodities value chain.

Specific objective # 3: promote Green Business through strengthening forest product value chains

Outputs	
3.1	An enabling environment for forest value chain businesses, particularly for small and medium-sized enterprises (SMEs) is provided through the regulatory and institutional framework
3.2	Private sector associations, particularly those representing SMEs, are strengthened
3.3	Capacities of the forest value chain, particularly of SMEs, are strengthened (in terms of value added, processing, innovation, entrepreneurship access to finance and markets, etc.)

²¹ Forests here encompasses coniferous & broadleaf forests, as well as wetlands (mangroves and non-coastal)

3.2 Indicative Activities

Specific Objective # 1: Strengthen inclusive Forest Governance through the implementation of the VPA FLEGT

Output 1.1: The institutions of the VPA (such as SETAVA, JIC, SIIAVA and National Committee) and the institutional capacities of the other agencies involved in the TLAS are strengthened

- Capacity assessment and capacity-building activities;
- Long- and short-term technical assistance on programme and project management, forestry-related issues, communication, stakeholder engagement, gender sectoral analysis on the forest sector, gender action plan to reinforce the inclusivity of the forest governance, land issues and indigenous peoples' rights, and other relevant areas;
- Acquisition of equipment and provision of operational budget;
- (Support for) outreach, awareness, and communication activities.

Output 1.2: The Timber Legality Assurance System (TLAS) is developed along with the necessary regulatory framework, the forest sector procedures, and the IT systems and databases that facilitate its enforcement.

- Development and implementation of IT systems and databases, acquisition and deployment of IT infrastructure in line with the VPA requirements;
- Review design of public sector realistic and simplified forest management procedures;
- Legal reviews of regulatory framework of the forestry sector, revision, simplification and improvement of forestry control and verification procedures, development of regulations, guidelines and protocols;
- Capacity-building of forest guards and other government personnel;
- Independent audit(s) of the TLAS.

Output 1.3: The capacity of private sector operators to comply with forestry regulations is enhanced

- Gender-sensitive capacity assessment and capacity-building of private sector operators;
- Technical assistance (short-term consultancies);
- Establishment of a platform of dialogue between private sector and ICF for an improved policy, norms and procedures' adherence.

Output 1.4: Other VPA-accompanying measures are supported, including demonstrating compliance with the requirements under the Deforestation Regulation in the wood value chain

- Develop technological solutions to provide and to pass on information relevant to the Deforestation Regulation related to due-diligence check across complex wood supply chains;
- Strengthen participatory and inclusive capacities and skills of forest sector stakeholders, including facilitating vertical integration i.e. sustainable connections between producers, processors, and exporters to the EU;
- Development and deployment of databases and IT-tools to facilitate participation;
- Acquisition of equipment to support stakeholder participation;
- Capacity assessments and capacity building of VPA-stakeholders (public and private);
- Outreach and awareness activities.

Output 1.5: The land titling and regularization is supported in the project area in consultation with local communities.

- Support land titling and regularization initiatives, in respect of indigenous land rights and other types of collective ownership, and especially for women;
- Provide technical assistance;
- Support of field and consultation/consent protocols for communities, indigenous peoples, etc;
- Acquisition of equipment and provision of field operational costs.

Specific Objective # 2: Build an inclusive Forest Partnership through sustainable forest management, forest restoration and ecotourism

Output 2.1: Sustainable and inclusive forest management is supported through incentives to the forest industry and to public/private forest owners.

- Needs assessment of the forest industry and of the public/private forest owners, with a gender approach;
- Assessment of obstacles/disincentives to sustainable forest management and internationally recognized certification;
- Development and provision of ad-hoc incentives and solutions to sustainable forest management and internationally recognized certification;
- Access to internationally recognized certification, to financial tools and to capacity building to forests' and forest industry owners (including SMEs and community-based forest industries).

Output 2.2: Forest²² restoration initiatives are supported as well as actors' availability and use of data sets for e.g. climate finance; Agriculture, Forestry and Other Land Use Measurement, Reporting and Verification (AFOLU MRV); Nationally Determined Contributions (NDCs) etc).

- Identification of priority areas for forest restoration within the framework of the Paris Agreement's Honduras commitments (1.3 Million ha), the National Programme of Ecosystem Goods and Services Restoration programme, and of the Forest Partnership;
- Support forest restoration activities in identified priority areas;
- Explore finance for restoration, especially complying with the criteria of climate finance;
- Technical assistance and capacity building to develop quality and transparent data sets for specific applications (e.g. climate finance; Agriculture, Forestry and Other Land Use Measurement, Reporting and Verification (AFOLU MRV); Nationally Determined Contributions (NDCs); supply chain transparency and traceability, etc);
- Development of policies and regulations to motivate investments in restoration activities for public and private forests;
- Provide technical assistance to implement reforestation projects;
- Acquisition of equipment;
- Capacity building of field staff and stakeholders.

²² Forests here encompasses coniferous & broadleaf forests, as well as wetlands (mangroves and non-coastal)

Output 2.3: Responsible ecotourism in Protected Areas is developed

- Technical assistance to put in place policies and regulations to allow for alternative income from ecotourism in the SINAPH (National System of Protected Areas) and for the development of community and private ecotourism infrastructure;
- Capacity development of tourist hosting and agro-ecotourism for local communities including consultation/consent protocols;
- Short- and long-term technical assistance to provide for transparent financial mechanisms for ecotourism and protected areas sustainable management, including alternative sources for ecosystem services and benchmarking of sustainable management financing mechanisms and instruments.

Output 2.4: Support the implementation of the Zero-Deforestation EU Regulation for agricultural commodities value chain.

Specific Objective # 3: Promote Green Businesses through strengthening forest product value chains

Output 3.1: An enabling environment for forest value chain businesses, particularly for micro and small enterprises (MSEs) is provided through the regulatory and institutional framework

- Legal reviews of regulatory framework of the forestry sector and the forest product value chain, including on trade, marketing and import/export;
- Capacity assessments and capacity building of the institutions and agencies involved in the forest value chain;
- Development and implementation of regulations, guidelines and protocols (such as the Guiding Principles on Business and Human Rights)²³;
- Equipment procurement and provision of operational budget.

Output 3.2: Private sector associations, particularly those representing MSEs, are strengthened

- Technical assistance for private sector, particularly MSEs capacity assessments and capacity building activities. The latter will be oriented towards capacities of local entrepreneurial development structures (inclusive governance, managerial, technical and operational), advisory services, creation of ventures and financial linkage with financial services (cooperatives regional savings, credit for green businesses and for women entrepreneurs);
- Provision of small equipment and operational budget;
- Ensure inclusion of women and youth and specific supports in the context of S/MSEs.

Output 3.3: Capacities of the forest value chain, particularly of MSEs, are strengthened (in terms of value added, processing, innovation, entrepreneurship access to finance and markets, etc.)

- Technical assistance (short and long term);
- Gender-sensitive capacity assessments and capacity building activities;

²³ Unlike large enterprises, MSEs are less likely to take voluntary pro-environmental action, since most micro-entrepreneurs have low environmental awareness, or eco-literacy, and limited financial and human resources. Also the informal economy is closely tied to the natural environment, a majority of informal enterprises depend on natural resources. This can be damaging to the environment particularly in the agriculture, forestry, fisheries and mining value chains. Therefore, regulations, guidelines and protocols that contribute to the promotion of formalization and environmental sustainability such as non-market based instruments that limit pollution or regulate the introduction and use of technological equipment, can contribute to create and develop sustainable business models that combine the benefits of their commercial and economic activities with concrete environmental protection.

- Support for local financial institutions, critical in view of building up financial mechanisms for smallholders and SMEs, especially those led by women;
- Provision of operational costs.

3.3 Mainstreaming

Environmental Protection & Climate Change

Environmental protection and climate change are at the core of this action with a clear focus on improved forest governance, management and conservation. In relation to climate change, by increasing the forest cover and protecting the remaining forests, the action will contribute to enhancing Honduras' carbon sequestration capacity and hence to mitigating global climate change. In addition, the restoration of degraded areas through natural regeneration will promote interconnection areas or biodiversity corridors.

Outcomes of the EIA (Environmental Impact Assessment) screening:

The EIA (Environment Impact Assessment) screening classified the action as Category C (no need for further assessment).

Outcome of the CRA (Climate Risk Assessment) screening:

The Climate Risk Assessment (CRA) screening concluded that the action is at no or at low risk (no need for further assessment).

Gender equality and empowerment of women and girls

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that the action recognizes gender equality as an important and deliberate objective, but not the principal reason for undertaking the project/ programme.

Therefore, gender equality and empowerment of women and girls will be both mainstreamed throughout and targeted during the implementation of the action. This action will conduct gender sector analysis to ensure mainstreaming across components and will apply an inter-sectional approach (indigenous and Afro-descendant women and girls). At the level of both implementing partners and beneficiaries, due attention will be given to ensuring gender equality in terms of opportunities (training, employment, networks, and entrepreneurship), decision-making (participation in FP and VPA Technical and Political Working groups, leadership) and benefit-sharing. For example, gender balances will be pursued in the envisaged formal trainings and in other capacity building activities. Women will be targeted in the activities related to forest management, sustainable agriculture and ecotourism. Finally, the development of value chains for wood and for NWFP provide ideal opportunities for promoting gender equality in relation to decision-making and benefit-sharing.

Human Rights

The proposed action links up with human rights in the aspects of right to work, corresponding respectively to articles 19 and 23 of the Universal Declaration of Human Rights. And regarding Art. 23, the action-supported development of value chains, will generate a substantial amount of jobs in the formal sector and help to reduce Honduras' current rate of unemployment. The action will apply a human rights-based approach respecting its five working principles: i) Applying all human rights for all; ii) Meaningful and inclusive participation and access to decision-making; iii) Non-discrimination and equality; iv) Accountability and rule of law for all; and v) Transparency and access to information supported by disaggregated data.

Honduras has ratified most of the international treaties such as the Convention on the Elimination of all Forms of Discrimination against Women (CEDAW) (1983) and International Convention on the Elimination of All Forms of Racial Discrimination (2002).

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1. This implies that the action does not include activities that specifically aim at the integration of or care for disabled persons.

Nonetheless, throughout the implementation of the action, due attention can be given to opportunities for involving disabled persons with disabilities under the “leave no one behind” principle. (for example in the trainings and active participation in the decision-making processes). Honduras has ratified in 2008 the Convention on the Rights of Persons with Disabilities (CRPD).

Democracy

Strengthening capacity of state actors and institutions is a major objective in the action. The enhanced capacities should enable them to better comply with their mandates in the areas of forest governance and sustainable forest management.

In addition, the action will support the effective implementation of participatory forest management arrangements, a modality that is foreseen by the VPA FLEGT, and hence involving local and indigenous communities in managing as well as using public forest resources.

Local authorities play an important role by facilitating administrative simplification processes for MSEs creation and development. Therefore, the green businesses component will focus in strengthening Territorial Employment Working Groups (*Mesas Territoriales de Empleo*) as a democratic and participative mechanism to boost local economy and promote social dialogue, particularly with local producers, chambers of commerce, financing institutions, and technical education and training suppliers.

Conflict sensitivity, peace and resilience

The action will address conflicts, linked to the land titling insecurity. Indeed the action will address land titling issues on the whole zone of the project. The recent Conflict Analysis Screening led in February 2023 in Honduras clearly indicated that land insecurity due to the lack of land titling was a major cause of violence throughout the country. This Action will thus contribute to reduce this violence in the area of the project. Conflict prevention opportunities will be sought, not least in the implementation of protocols for Free, Prior and Informed Consent of indigenous peoples and Afrodescendants and through a participatory and inclusive approach.

It is also expected that the implementation of the action will have positive effects on the resilience of local communities and citizens by the promotion of green businesses and ecotourism (value chains, ecotourism), also by assisting them in the management of forests, and by improving the productive capacity of their environment (agroforestry).

Disaster Risk Reduction

It is recognised that a good forest cover has a regulating effect on the hydrological systems in the area under influence; in that sense, this action – by addressing deforestation and promoting forest restoration – contributes to reducing the risks for flooding as well as for wells and rivers drying up during the dry season.

By supporting reforestation, the action will contribute to reducing the risks of local landslides and erosion as well as ecological systems thinking in and around forests to build resilience.

3.4 Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
1	Corruption, changes of Government (weakening the political will) and criminal illicit activities led by drug mafia (within wide areas of forests) threaten the implementation of the VPA FLEGT	M	M	Processes will be institutionalised as much as possible during the lifetime of the project and will therefore not depend of individuals of whatever party. Measures to enhance the transparency of procurement process and prevent conflict of interest as well as measures to ensure enforcement will be in place.
3	Rights of indigenous peoples are not properly implemented, causing discontent in communities and possible reputational damage for the EU and lack of implementation of FPIC rights.	M	M	The project will directly address land titling, including indigenous ones, in the area of intervention of the project, reducing thus the lack of recognition of customary land rights Implementation of FPIC protocols
3	Extreme control measures in private forest management demotivate private owners to invest in forest management or to restore denuded forest lands, and are an incentive to corruption. Serious reform will require political commitment.	M	M	The measures of support to the private sector foresee a platform of dialogue between private and public support to address these issues. A strong set of support measures is planned to motivate the private sector and address key issues, such as this one.
1	Extreme climatic events keep causing droughts, storms, and hurricanes, threaten forests and agroforestry production and increase communities' vulnerability.	M	M	The area of the project does not include San Pedro Sula area and the Northern Atlantic coast, which are the most vulnerable areas to climatic events
	Human rights violation committed by private sector such as practices from different actors that generate the degradation of the			Human rights violation committed by private sector such as practices from different actors that generate the degradation of the

	environment, of living and working conditions and granting concession to companies -land and territories-).	M	M	environment, of living and working conditions and granting concession to companies -land and territories-).
2	Honduras' projected economic growth does not occur in the expected terms, thus reducing the market and having a negative impact for the SMEs survival and success.	M	M	The project will provide technical assistance for improving government as well other key stakeholders' capacities to deliver financial and business development services for entrepreneurs and productive sectors. Recent lessons learned from the COVID-19 pandemic indicate that SMEs capacity development and access to financial resources for its survival can diminish the effects of external shocks.

Lessons Learnt:

- ✓ Preparatory stakeholder consultations learned that the major source of corruption related to timber is the slow administrative processing of official forest-related documents by the Ministry of Forests (ICF). ICF has given signs that this has become a priority to address in order to reduce corruption in the forest sector;
- ✓ Preparatory conflict assessment has shown that land titling is a key issue, as most of the violence in Honduras is related to land insecurity and to the lack of land titling;
- ✓ Private sector has been previously under-associated to the VPA FLEGT in Honduras, whereas it is the central stakeholder of VPA, given that it is this sector that actually manages forests and timber;
- ✓ The development of new instruments for Green Businesses will be based on previous successful experiences by the CDE-MYPIMES in the various regions of the country as well as abroad;
- ✓ Previous EU-funded MSE support initiatives in Central America²⁴ show that addressing the entrepreneurial ecosystem weaknesses and challenges with specific interventions, increases the entrepreneurs' access to adequate financial products for their ventures, and allows them to acquire the necessary knowledge and technology to achieve a greater competitiveness and productivity;
- ✓ The design of the timber tracking system to be established in Honduras is based on lesson-learned and experiences from other countries, in order to keep the momentum, by achieving small goals and thus by celebrating success of each successful step (VPA-FLEGT).

²⁴ At regional level, the "Support for private sector development in Central America" (ADESEP) and the DINAMICA Initiative contributed to strengthening both the MSEs business ecosystem especially for new, young and/or innovative MSEs; as well as the financial sector to promote adequate access to financial services for these MSEs in Central America.

3.5 The Intervention Logic

The proposed action aims at supporting the forests in Honduras (governance and sustainability) as well as those who live from the forests in Honduras:

1. Supporting the forests' governance (through the VPA FLEGT's implementation): **outcome 1**
2. Supporting the forests' sustainability (through the Forest Partnership): **outcome 2**
3. Supporting the green businesses who live from the forests' resources: **outcome 3**

- **VPA FLEGT (outcome 1).** Forest governance will be strengthened through the implementation of the legally binding and recently ratified Voluntary Partnership Agreement (VPA-FLEGT), which has forest governance and timber legality at its centre. All identified outputs related to governance will contribute directly to achieving this specific objective and have as such been recognised by the signatories of the VPA signed by Honduras and the EU as being essential for implementing the bilateral agreement. As a basis, the new-born VPA institutions will be strengthened (output 1.1), the very core of the VPA will be developed (Timber Legality Assurance System –output 1.2) and the capacity of private sector operators will be enhanced (output 1.3), as they are the 1st in line on the field to implement the VPA requirements. Finally, as required by the Agreement, elements to monitor the VPA's impact will be established (output 1.4), and the land titling and regularisation will be supported (output 1.5), not only to make sure the timber produced in the project area is legal, but also to ensure a peaceful and safe environment in the production areas. Overall, this will also reinforce the legal timber trade with the EU.
- **Forest Partnership (outcome 2).** “VPA & Beyond: Voluntary Partnership Agreement, Forest Partnership and Green Business”, the Action will not only support forest governance and timber legality, but also forest sustainability as envisaged by the Forest Partnership (FP) between the EU and Honduras, currently being negotiated. This sustainability will be supported through forest restoration activities (output 2.2) (in line with Honduras' NDC to restore 1.3 Million hectares by 2030), supporting responsible ecotourism in Protected Areas (output 2.3), supporting the implementation of the Zero-Deforestation EU Regulation in agroforestry areas (output 2.4), and also by supporting the forest industry and public/private owners engaged or committed to engaging in sustainable forest management (output 2.1). Without their active participation, Honduras will not be able to manage its objectives within the Forest Partnership.
- These 2 outcomes are interlinked, as the VPA activities are strictly focused on the timber legality and hence the forest governance, whereas the FP activities are rightly “beyond the VPA”, hence covering in the forest area whatever is not covered by the VPA, which is the forest sustainability as a whole. Also, strengthening of sector governance is possible through management, technical and operational capacity development of public and private actors that promote business development, boost the entrepreneurial ecosystem and ensure environmental sustainability through the implementation of new MSE acceleration models, use of new technologies and diversification of value chains linked to the forestry sector with the greatest potential for competitiveness.
- **Green Businesses (outcome 3).** Finally, as the Honduras forest transformation sector is dominated by MSEs, a Green Businesses component, focused on the forest-related value chains, will support a wide range of MSEs, including those related to climate smart agriculture, given that conversion of forest lands to livestock pasture or agriculture is thought to be the one of the major causes of deforestation. The promotion and strengthening of a business development model and the creation of innovative, scalable ventures focused primarily on agro industrial, ecotourism and forestry value chains will contribute to increasing competitiveness, generate decent employment and at the same time reduce the environmental impact on Honduran forests.
- The three components will support the roll-out of the VPA FLEGT, the Forest Partnership between the EU and the Honduras, as well as the private sector who needs to match these new requirements.

3.6 Logical Framework Matrix

Results	Results chain (@): Main expected results (maximum 10)	Indicators (@): (at least one indicator per expected result)	Baselines (Values and years)	Targets (Values and years)	Sources of data	Assumptions
Outcome # 1	Strengthened Governance through the implementation of the VPA-FLEGT	Number of processes related to the negotiation, implementation or enforcement of EU trade and investment agreements with partner countries which have been influenced or a customized indicator about the VPA status of implementation	Current Status of VPA implementation	Expected Status of VPA implementation (sequences/date s/modulated etc)	EU intervention monitoring systems (Project reports)	Assumptions in relation to economic context, market stability
Output 1.1	The institutions of the VPA (such as SETAVA, JIC, SIIAVA and National Committee) and the institutional capacities of the agencies involved in the TLAS are strengthened	<p>Number of capacity assessments and capacity building activities, acquisition of equipment, technical assistance (short-term as well as longer terms consultancies), outreach and awareness activities.</p> <p>- Number of JIC, SIIAVA and Technical Committee meetings held</p> <p>- Number of government personnel trained and trainings delivered to SETAVA, disaggregated by sex</p>	0 capacity assessment /training / events organised for VPA institutions	<p>30 capacity assessment /training / events organised</p> <p>200 participants by types of events/trainings etc</p>	EU intervention monitoring systems (Project reports)	Level required of capacity absorption by targeted audience or condition for upscaling or institutional dynamic for efficient use of knowledge developed or acquired
Output 1.2	The Timber Legality Assurance System (TLAS) is developed along with the necessary regulatory framework, the forest sector procedures, and the IT systems and databases that facilitate its enforcement	<p>-1 QR monitoring system running effectively.</p> <p>- GoH institutions qualified to use, manage, and store info.</p> <p>- Legal reforms and ICF procedures reviewed and monitored.</p> <p>- ICF/Transport Ministry trained personnel.</p> <p>- Legal reviews of regulatory framework of the forestry sector, revision and</p>	No TLAS in place	TLAS in place	EU intervention monitoring systems (Project reports)	Strong political will remains

		<p>improvement of forestry control and verification procedures, development of guidelines and protocols of updated procedures, training of forest guards and other government personnel (disaggregated by sex), development and implementation of IT systems and databases, acquisition and deployment of IT infrastructure, provide technical assistance, acquisition of equipment needed to enforce forestry regulatory framework, outreach and awareness activities.</p> <p>- Number of government policies, regulations, and procedures developed or revised (% gender sensitive and containing Free, Prior and Informed Consent).</p> <p>- Number of IT modules and applications underpinning forestry control procedures developed and operational</p>				
Output 1.3	The capacity of private sector operators to comply with forestry regulations is enhanced	Number of operators trained to comply with forestry regulations	0 operators trained to comply with forestry regulations	30 operators trained to comply with forestry regulations	EU intervention monitoring systems (Project reports)	Participation of the private forest sector
Output 1.4	Other VPA-accompanying measures are supported, including demonstrative compliance with the requirements under the Deforestation Regulation in the wood value chain	<p>Readiness of wood supply chains to the EU to comply with the Deforestation Regulation</p> <p>Status of development/implementation of the monitoring systems (impact, independent monitoring and complaint mechanism)</p>	<p>Wood value chain is not ready to comply with the Deforestation Regulation</p> <p>other accompanying systems absent</p>	Wood supply chains actors are able to provide the necessary information to facilitate due-diligence by EU operators in the	Due-diligence statements and EU initiated database	Entry into force of the Deforestation Regulation and application by the end of 2024/2025 and

				framework of the EU Deforestation Regulation The complaints mechanism is operational in the study area		enforcement of relevant provisions
Output 1.5	The land titling and regularization is supported in the project area in consultation with local communities.	- INA, IP and ICF protocols in place with trained field crews and data/mapping systems.	5% of lands are titled in the project area	20% of lands are titled in the project area	EU intervention monitoring systems (Project reports)	Strong political will and support
Outcome # 2	Forest Partnership is built in Honduras through sustainable and inclusive forest management, forest restoration and ecotourism	- ICF/GoH prioritized areas of ecosystem restoration established. - Value chains identified, prioritized, and trained. - Policy, legal and operational obstacles to sustainable management of forests identified and prioritized.	No prioritized areas for restoration	Areas for restoration are prioritized in the area of the project	EU intervention monitoring systems (Project reports)	Full collaboration of ICF
Output 2.1	Sustainable forest management is supported through incentives to the forest industry and to public/private forest owners (certification, financial tools, capacity building, etc.)	- Policy, legal and operational obstacles to forest protection, restoration, reforestation, and conservation of private, national, and municipal lands, identified and prioritized. - National, local, and municipal incentives in place to protect, restore and sustainably manage pine and broadleaved forests.	Number of supported forest industry and to public/private forest owners	10 supported forest industry and to public/private forest owners	EU intervention monitoring systems (Project reports)	Continued interest of the public/private forest sectors
Output 2.2	Forest restoration initiatives are supported	Level of implementation of Paris' Agreement's Honduras commitments (towards 1.3 Million Ha) Hectares of restored forest priority areas	0 ha restored in the identified priority areas	1.000 ha restored in the identified priority areas	EU intervention monitoring systems (Project reports)	Sustained political will Strong private sector collaboration

Output 2.3	Responsible ecotourism in Protected Areas is developed	<ul style="list-style-type: none"> - Policy, legal and operational obstacles to sustainable and inclusive ecotourism in private lands, national and municipal protected areas - Policies and procedures for private concession areas of public use in the SINAPH and private reserves, in place (% containing Free, Prior and Informed Consent) - Number of national and local funding mechanisms and instruments in place for private and public protected areas management and ecotourism infrastructure 	0 public protected areas with private investment in the pilot area	3 public protected areas with private investment in the pilot area	EU intervention monitoring systems (Project reports)	Strong political will
Outcome # 3	Green Businesses promoted through strengthening forest product value chains	<p>Poverty reduction rate in the project intervention regions due to the employment opportunities generated through the creation of new forest value chain related businesses, disaggregated by sex.</p> <p>Number of women benefiting from incentives used to encourage women's entry into the forest product value chains (GAP III).</p>	0		<p>New forest value chain related businesses records.</p> <p>Poverty rate measurement reports generated locally.</p>	Strong political will and support
Output 3.1	An enabling environment for forest value chain businesses, particularly for micro and small enterprises (MSEs) is provided through the regulatory and institutional framework.	<ul style="list-style-type: none"> - Number of strategic plans created and implemented to enable the environment for forest value chain businesses, particularly for micro and small enterprises (% gender sensitive to promote MSEs lead by women and indigenous people). - Number of operational plans to promote MSEs with a focus on the forest related value chains. (% gender sensitive to include women). 	0		Audited progress reports and evaluations	Strong political and organizational will and support

Output 3.2	Private sector associations are strengthened	<p>- Number of agreements signed among actors within the forest related value chains that include entrepreneurial ecosystem promotion and MSE acceleration services.(% containing Free, Prior and Informed Consent)</p> <p>-Number of MSE specialized units operating under a new entrepreneurial development service model (% of MSE lead by women and indigenous people).</p>	0		Audited progress reports and evaluations	
Output 3.3	Capacities of the forest value chain, particularly of MSEs, are strengthened (in terms of value added, processing, innovation, entrepreneurship access to finance and markets, etc.)	<p>Number of forest related value chain MSEs that receive business development assistance to accelerate their initiatives and improve their competitiveness.</p> <p>Number of new innovative, scalable and sustainable business initiatives in forest related value chain that overcome the valley of death.</p>	0		Audited progress reports and evaluations	Strong interest and support from the SME sector and ICF

4 IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the partner country.

4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 96 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3. Implementation of the Budget Support Component: N/A

4.4. Implementation Modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures²⁵.

4.4.1. Direct Management (Grants)

Grants: (direct management)

(a) Purpose of the grant: this grant seeks to underpin local efforts aimed at strengthening productive value chains by improving access to credit and technical assistance for producers and MSE owners under the agricultural, forest and tourism value chains while contributing to boosting productivity and competitiveness of Honduran micro and small businesses.

(b) Type of applicants targeted: the implementation of this grant will achieve better results and complement the other two components of the action (Decision level) if it is implemented through a highly specialised and certified non-governmental institution that can **jointly provide financial and non-financial services under a single legal status**, with proven experience in the following areas:

- *CDE-MIPYME Región Lempa (Lead Coordinator):* a public-private-academic organisation that provides specialised services for development of the MSME business sector of the Lempa Region, with 7 years of experience in socioeconomic development in alliance with strategic local, national and international partners. It is the first organisation of its kind to build a Business Innovation and Incubation Center (CIIE) in Honduras.

²⁵ www.sanctionsmap.eu. Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

- *CDE-MIPYME Región Valle de Sula*: provides specialised technical assistance to micro entrepreneurs of the northern region of the country in areas such as communication and information technologies, legal affairs, market intelligence, labour intermediation and employment guidance. It is the first organisation of its kind to have a Business School for entrepreneurs;
- *CDE-MIPYME Cordillera Nombre de Dios*: provides advisory services, training and links MSMEs of northeastern region of the country with potential national and international markets;
- *CDE-MIPYME Región La Mosquitia*: provides advisory services related to marketing, e-commerce and communication for MSMEs of the eastern region of the country;
- *CDE-MIPYME Región Golfo de Fonseca*: provides advisory services related to the promotion of an innovative-entrepreneurial culture, linking the start-up community, capacity development to entrepreneurs of the southern region of the country.

All of these CDE-MIPYMEs are part of the CDE-MIPYME Network with presence in the most productive areas of the country linked to agricultural, forest and tourism value chains and with a solid experience in project implementation. The EU Delegation knows and has proof of project implementation since the CDE-MIPYME Región Lempa and CDE MIPYME Golfo de Fonseca demonstrated sound financial and technical management of grants awarded by the EU from 2018 – 2021 under the EURO +LABOR programme.²⁶ Additionally, through donor working groups, the Delegation has known projects implemented by these five CDE-MIPYMEs financed by the Spanish International Development Agency (AECID), United States Agency for International Development (USAID), German Technical Cooperation Agency (GIZ), United Nations Development Program (UNDP), United Nations High Commissioner for Refugees (UNHCR) among others. This guarantees the project implementation through a strong nationwide consortium of specialised entrepreneurial development services organisations.

(c) Justification of a direct grant: a direct grant to the CDE-MIPYME Network, led by CDE-MIPYME Región Lempa, and including five specialised institutions, will allow the intervention to provide technical and financial services in specific regions of the country, strengthening productive value chains without duplication of activities.

This grant is justified because these entities are the only ones registered with a single legal status as a second-tier organisation able to provide joint technical and financial services and certified by the Ministry of Economic Development. These CDE-MIPYMEs work in a coordinated manner with other government, private sector and civil society organisations to promote local economic development in their respective regions. The latter is justified according to art. 195 (f) “Exceptions to Calls for Proposals” which states that grants may be awarded without a call for proposals following literal (f) for activities with specific characteristics that require a particular type of body on account of its technical competence, its high degree of specialisation or its administrative powers, on condition that the activities concerned do not fall within the scope of a call for proposals.

²⁶ Four CDE MIPYME (Occidente, Lempa, Golfo de Fonseca and Arrecife) implemented grant contracts of EUR 400 000 each for the “Design and Implementation of the Employment and Income Promotion Strategy” under EURO +LABOR Program (LA/2014/026-851) from 2018 – 2021. CDE-MIPYME Región Lempa who is the consortium leader under the proposed action implemented contract LA/2018/397-429 (PCC-397429) and CDE-MIPYME Región Golfo de Fonseca implemented contract LA/2018/397-433 (PCC-397433 OPSYS Reference). Both contractors successfully contributed to improving access to the benefits of decent and productive employment through active labour market policies promoted by public and private actors, including the civil society for workers and employers of the formal and informal economic units of their regions. The “Documentation and systematization of procedures, results, practices, good experiences and lessons learned, case studies and their dissemination within the framework of the promotion of decent and productive employment to achieve the objectives and indicators of the EURO+LABOR Program” report endorses this justification. It highlights that the activities implemented by the CDE MIPYMEs were robust, coherent and contributed to its sustainability.

4.4.2 Direct Management (Procurement)

The technical assistance will come in support of achieving outcomes 1, 2 and 3

By ensuring:

- The coordination of the implementers of the 3 components and their national counterparts;
- The technical advice and capacity building for the implementers, institutions and beneficiaries;
- The support to the EU Delegation in the monitoring, follow up and visibility in order to achieve the technical and administrative provisions of the Financing Agreement effectively.

4.4.3 Indirect Management with an entrusted entity

This action may be implemented in indirect management with a pillar assessed entity, which will be selected by the Commission's services using the following criteria:

- Solid technical experience in forest-related projects. Relevant experience with the EU VPA FLEGT implementation process will be a strong asset;
- Proven experience in managing EU-funded projects;
- Availability of procedures for awarding direct grants to implementing partners;
- Able to mobilize a multidisciplinary team of experts related to targeted subjects on forest related topics;
- Preparedness to establish an officer in Honduras to closely monitor the project;
- Experience in working with the private sector and the civil society;
- Experience in providing support to private sector and to public institutions;
- Experience with the development and implementation of tools related to VPAs' Timber Legality Assurance Systems (TLAS) will be a strong asset.

The implementation by this entity entails outcomes 1 and 2 (corresponding to Specific Objectives 1 and 2).

4.4.4 Changes from indirect to direct management mode (and vice versa) due to exceptional circumstances (one alternative second option)

In case the actions described in section 4.4.3 and initially planned under indirect management through an entrusted entity cannot be implemented under indirect management due to circumstances outside of the Commission's control, the Commission reserves the right to implement this part of the action in direct management, with an entity which will need to demonstrate:

- Solid technical experience in forest-related projects. Relevant experience with the EU VPA FLEGT implementation process will be a strong asset;
- Proven experience in managing EU-funded projects;
- Availability of procedures for awarding direct grants to implementing partners;
- Able to mobilise a multidisciplinary team of experts related to targeted subjects on forest related topics;
- Preparedness to establish an officer in Honduras to closely monitor the project;

- Experience in working with the private sector and the civil society;
- Experience in providing support to private sector and to public institutions;
- Experience with the development and implementation of tools related to VPAs' Timber Legality Assurance Systems (TLAS) will be a strong asset.

In case the actions as described in section 4.4.1 (direct management/grants) and 4.4.2. (direct management/procurement) cannot be implemented through direct management due to circumstances outside of the Commission's control, then the relevant part of this action will be implemented through indirect management with a pillar assessed entity which will need to demonstrate the same criteria as above.

4.5. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realization of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.6 Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)
Implementation modalities – cf. section 4.4	
Objective # 1: Strengthen forest governance through VPA FLEGT's implementation, <i>composed of:</i>	8 000 000
Indirect management with an entrusted entity - cf. section 4.4.3	8 000 000
Objective # 2: Build the Forest Partnership through sustainable forest management, forest restoration and ecotourism, <i>composed of:</i>	8 000 000
Indirect management with an entrusted entity - cf. section 4.4.3	8 000 000
Objective # 3 Promote Green Business through strengthening forest product value chains, <i>composed of:</i>	7 200 000
Grants – total envelope under section 4.4.1	4 900 000
Objectives # 1-2-3	2 300 000

Procurement – total envelope under section 4.4.2	
Evaluation – cf. section 5.2	180 000
Audit – cf. section 5.3	20 000
Totals	23 400 000

4.7 Organisational Set-up and Responsibilities

The overall coordination of the programme will be done by the EU Delegation and the ICF (*Instituto de Conservación y Desarrollo Forestal, Áreas Protegidas y Vida Silvestre*).

A project Steering Committee (PSC) will be established to oversee and to provide overall guidance to the implementation of the action.

The PSC will comprise of at least representatives of the EU Delegation, the ICF, public bodies involved in the programme and the implementing partners. Meetings of the PSC will be convened once a year, with the possibility to organise additional ad-hoc meetings whenever there is a need or a request.

A Technical Coordination mechanism will be set up at the beginning the programme with coordination meetings to be organised once a year, and on ad-hoc basis according to the needs.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action and may sign or enter into joint declarations or statements, for the purpose of enhancing the visibility of the EU and its contribution to this action and ensuring effective coordination.

5. PERFORMANCE MEASUREMENT

5.1 Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

- The EU Delegation and the ICF will have the overall oversight and monitoring role;
- The implementing partners will be in charge of identifying the baselines and monitoring the achievements of the indicators falling under their responsibility;
- The ICF is in charge of compiling data collected through national statistics;
- All monitoring and reporting shall assess how the action is considering the principle of gender equality, human rights-based approach and rights of persons with disabilities including inclusion and diversity Indicators shall be disaggregated at least by sex.

5.2 Evaluation

Having regard to the nature of the action, a final evaluation may be carried out for this action or its components via independent consultants contracted by the European Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the action is promoting innovative approaches to the forestry sector and present a complex set of actions.

The Commission shall inform the implementing partner at least 30 days in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, apply the necessary adjustments.

Evaluation services may be contracted under a framework contract.

All evaluations shall assess to what extent the action is taking into account the human rights-based approach as well as how it contributes to gender equality and women's empowerment and disability inclusion expertise on human rights, disability and gender equality will be ensured in the evaluation teams.

5.3 Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

In line with the 2022 [Communicating and Raising EU Visibility: Guidance for External Actions](#), it will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are in principle no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

Appendix 1 - REPORTING IN OPSYS

A Primary Intervention (project/programme) is a coherent set of activities and results structured in a logical framework aiming at delivering development change or progress. Identifying the level of the primary intervention will allow for:

Articulating Actions or Contracts according to an expected chain of results and therefore allowing them to ensure efficient monitoring and reporting of performance;
Differentiating these Actions or Contracts from those that do not produce direct reportable development results, defined as support entities (i.e. audits, evaluations);
Having a complete and exhaustive mapping of all results-bearing Actions and Contracts.

Primary Interventions are identified during the design of each action by the responsible service (Delegation or Headquarters operational Unit).

The level of the Primary Intervention chosen can be modified (directly in OPSYS) and the modification does not constitute an amendment of the action document.

The intervention level for the present Action identifies as:

Option 3: Contract level		
<input checked="" type="checkbox"/>	Single Contract 1	Outcome 1: indirect management with an entrusted entity
<input checked="" type="checkbox"/>	Single Contract 2	Outcome 2: indirect management with an entrusted entity
<input checked="" type="checkbox"/>	Single Contract 3	Outcome 3: direct Management with grant
<input checked="" type="checkbox"/>	Single Contract 4	Outcomes 1,2,3: direct management with procurement
<input checked="" type="checkbox"/>	Single Contract 5	Support entity: Procurement of service for audit and evaluation