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ANNEX I

of the Commission Implementing Decision on the financing of the annual action plan in favour of Honduras for 2021

Action Document for Towards a Decarbonised Economy: Adapting Agricultural Production to Climate Change in the context of the EU-Honduras Voluntary Partnership Agreement

ANNUAL ACTION PLAN

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and action plans of Article 23 of NDICI-Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

1. Title CRIS/OPSYS business reference Basic Act	Towards a Decarbonised Economy: Adapting Agricultural Production to Climate Change in the context of the EU-Honduras Voluntary Partnership Agreement CRIS number: NDICI LA/2021/043-250 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)/ Overseas Association Decision/European Instrument for International Nuclear Safety Cooperation Regulation
2. Team Europe Initiative	Yes Honduras (“Climate Change and Natural Resource Management” TEI) The commitment of the EU’s contribution to the Team Europe Initiatives foreseen under this annual action plan will be complemented by other contributions from Team Europe partners. It is subject to the formal confirmation of each respective partners’ 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.
3. Zone benefiting from the action	The action shall be carried out in Latin America, Honduras, in the following locations: El Paraíso (for the Climate-Smart Agriculture Component), and Olancho and Francisco Morazán (for the pilot testing of Forest Governance Legality System)
4. Programming document	Multiannual Indicative Programme (2021-2027) Honduras
5. Link with relevant MIP(s)	Land Use, Land-Use Change and Forestry (LULUCF) ¹ emissions reduced and carbon absorbed compared to Business as Usual (BAU) ² (DAC Sector Code 312 – Forestry)

¹ Includes wetland, mangroves and coastal ecosystems. Scientific evidence shows that mangroves can sequester four times more carbon than rainforests

² In line with the Latin America continental Team Europe Initiative and the Americas and the Caribbean Regional MIP specific objective 2: strengthening protection of biodiversity and forest conservation.

objectives/expected results				
PRIORITY AREAS AND SECTOR INFORMATION				
6. Priority Area(s), sectors	Forestry (312), Agriculture (311), General Environment Protection (410)			
7. Sustainable Development Goals (SDGs)	Significant SDG Goal 13. Climate Action (target 13.1 ³ , 13.b ⁴) Other significant SDG(s) Goal 15. Life on Earth (targets 15.4 ⁵ , 15.1 ⁶ , 15.2 ⁷) Goal 6. Clean Water and Sanitation (target 6.6 ⁸) Goal 5. Achieve gender equality and empower all women and girls (5.a. ⁹) Goal 10 Reduce inequality within and among countries (10.7 ¹⁰) Goal 2. Zero Hunger (target 2.4 ¹¹) Goal 12: Ensure sustainable consumption and production patterns			
8 a) DAC code(s)	Main DAC code: 41020: Biosphere Protection (50%) Sub code 1: 31220: Forestry Development (10%) Sub code 2: 31120: Agriculture development (40%)			
8 b) Main Delivery Channel @	Channel 1: 20000 NGO and Civil Society Channel 2: 12001 Central Government			
9. Targets	<input checked="" 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"/>
	Trade development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

³ Strengthen resilience and adaptive capacity to climate related hazards and natural disasters in all countries.

⁴ Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries, including women, youth and marginalized communities.

⁵ Ensure the conservation of mountain ecosystems, including their biodiversity, in order to enhance provide benefits for sustainable development.

⁶ 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.

⁷ Promote the implementation of sustainable management of forests, halt deforestation, restore degraded forests, and increase afforestation and reforestation.

⁸ Protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes

⁹ 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.

¹⁰ Facilitate orderly, safe, regular, and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies.

¹¹ Ensure sustainable food production systems and implement resilient agricultural practices that help maintain ecosystems, strengthen capacity for adaptation to climate change, extreme weather, and progressively improve land and soil quality.

	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 type="checkbox"/>	<input checked="" type="checkbox"/>
	Climate change adaptation @	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
11. Internal markers and Tags:	Policy objectives	Not targeted	Significant objective	Principal objective
	Digitalisation @ Tags: digital connectivity digital governance digital entrepreneurship job creation digital skills/literacy digital services	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	Connectivity @ Tags: transport people2people energy digital connectivity	<input checked="" type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	Migration @ (methodology for tagging under development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities (methodology for marker and tagging under development)	<input type="checkbox"/>	<input checked="" 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): BGUE-B2021-14.020140-C1-INTPA Total estimated cost: EUR 7.95 million Total amount of EU budget contribution EUR 7.45 million This action is co-financed jointly by Civil Society for an amount of EUR 0.5 million			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing	Direct management through: <ul style="list-style-type: none"> Direct grant to Civil Society Financing for Development (FfD) organisation with the capacity to provide micro-credits in the agroforestry sector. 			

	<ul style="list-style-type: none"> • Call for Proposal to select the best partner for the implementation of Climate Smart Agriculture, and Technical Assistance • Procurement <p>Indirect management with the Government of Honduras, represented by the National Institute of Forest Conservation</p> <p>In the event that both Direct and Indirect Management failed to be implemented due to circumstances outside of the Commission's control, this action will be managed with a Direct Grant, without a call for proposal, with a European Member States organisation in the form of a Delegated Agreement.</p>
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1.2. Summary of the Action

This Action will assist Honduras in complying with its commitments under the Paris Agreement. As agricultural expansion is one of the main drivers of deforestation in Honduras, progress towards the country's NDC to restore 1 million hectares of forest cannot be envisaged without the participation of agricultural producers.

This Action will assist Honduras in complying with its commitments under the Paris Agreement by promoting climate-smart agriculture techniques, agroforestry and circularity models in key value chains linked to the country's agricultural¹² and timber¹³ sectors

It will do so by linking assistance on Climate-Smart Agriculture (CSA)¹⁴ practices with micro-credits to help finance loans for climate-friendly investments. Part of landscape approach, the action will seek to strengthen soil conservation and integrated water management measures, as forests are the main water catchers.

The action will also seek to strengthen integrated water management, as forests are the main water catchers.

In doing so, the EU hopes to capitalize on the Voluntary Partnership Agreement on Forest Law Enforcement, Governance, and Trade (VPA FLEGT) recently signed between the EU and Honduras in 2021. The VPA FLEGT stands out as the best tool for diversifying economic activities by engaging with local food producers in improving forest governance. It will also take advantage of the ongoing and past Disaster preparedness operations funded by the EU in the region, seeking complementarity with those seeking to foster resilience of vulnerable communities.

By promoting more sustainable and resilient value chains in the forestry and agricultural sectors, the Action intends to reduce greenhouses gas emissions from the Land Use, Land-Use Change and Forestry sector and enhance GHG sequestration.

The proposed Action intends to reduce greenhouses gas emissions caused by Land Use, Land-Use Change and Forestry depletion by promoting more sustainable and resilient value chains in the forestry and agricultural sectors. The expected outcome is the decrease of the rate of deforestation and restoration of forest areas due to improved value chain governance in these sectors. (Corresponds to Priority Area 1, Specific Objective 1, Expected Result 1, under the MIP (2021-2027).

The Action will contribute to address the interlinkages between the SDGs 11, 13, 5, 10 and 15¹⁵, and is supportive to the NDC of Honduras. The Action is aligned with the EU Green Deal and especially Biodiversity, Farm to Fork, Circularity aspects, and the Gender Action Plan III (2021-2025). Under the MIP 2021-2027, corresponds to Priority Area 1, Specific Objective 1, and Expected Result 1.

¹² Primarily coffee, but potentially also beans, corn

¹³ Timber valued tree species, such as Mahogany, can provide shade to resilient crops, while also maintaining soil fertility and reducing erosion

¹⁴ Climate-smart agriculture (CSA) is an approach that helps to guide actions needed to transform and reorient agricultural systems to effectively support development and ensure food security in a changing climate. CSA aims to tackle three main objectives: sustainably increasing agricultural productivity and incomes; adapting and building resilience to climate change; and reducing and/or removing greenhouse gas emissions, where possible.

¹⁵ Main DAC codes: Biosphere Protection (41020).

The Action will also contribute to objectives under the EU Green Deal aimed at conserving and restoring ecosystems and biodiversity. The Action will contribute to addressing the interlinkages between SDGs 11, 13 and 15.

The Outputs to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:

- Agro-ecological principles are considered based on plant diversity and local species, polyculture, agroforestry systems, animal integration, organic matter, soil cover, and water harvesting.
- Agroforestry business models are established: licenses and certifications of specialty coffees and other deforestation-free commodities are obtained, and technologies taking advantage of nature-based solutions are adopted.
- A timber legality System is partially designed by the beneficiary government.
- Interventions for the implementation of the National Decarbonisation and Climate Resilience Strategy (2020 – 2050) are designed.

2. RATIONALE

2.1. Context

Honduras, categorized as a lower middle-income country, has an estimated population of 9 million inhabitants, predominantly young (39.7% of the total population are under 19). With declining population growth rates (current fertility rate is 2.4 per women), the country is in the early stages of a demographic transition. It has benefitted from a steady GDP growth of 3.1-4.8 % per year in 2014-2019, followed by a strong decline of 9%¹⁶ in 2020.

From a development cooperation perspective, Honduras has found itself trapped in a cycle of low growth, insufficient to reduce poverty. Indeed, poverty is widespread, with 61.9% of households affected, and 38.7% living in extreme poverty, while inequality is among the highest in the continent (GINI Index: 0.51). The national economy is linked to its natural capital (the country is part of the Mesoamerican biological corridor which hosts 7% of planet's biodiversity) and the agricultural sector represents 30%, while the timber sector represents less than 1% of the GDP¹⁷. Honduras is the largest coffee producer in Central America¹⁸, third in Latin America, and fifth globally. Coffee production represents 5% of the total GDP. Honduras has a Gender Inequalities Index value of 0.423, ranking it 100 out of 162 countries in 2019. In Honduras, 21.1% of parliamentary seats are held by women, and 32.2% of adult women have reached at least a secondary level of education compared to 29.6% of their male counterparts¹⁹.

Honduras presents high levels of food insecurity and vulnerability to climate change. As a small open economy, the country is vulnerable to external shocks, particularly in relation to the US economy and migration policies. Unemployment and especially underemployment mainly affects women and youth, and this in turn pushes them towards irregular migration. While the rate is declining, Honduras still presents one of the highest homicide rates in the world. In addition, power is concentrated within a small political elite group and there are limited institutional capacities to implement a human rights agenda. Institutionally weak justice and security sectors, combined with drug trafficking, impunity and organized crime provide fertile ground for corruption that heavily curtails government credibility.

The Covid-19 crisis and IOTA and ETA hurricanes in late 2020 have seriously affected Honduras at health, economic and social levels. An already weak and poorly equipped health system is struggling to cope with the crisis. The business sector, particularly the micro, small and medium businesses who mostly operate in the informal sector, has been severely impacted by lockdowns and restrictions, although partially mitigated by an unexpected increase of remittances (+3.5% compared with 2021) totalling 5,573 million²⁰.

The Action is aligned with the Sustainable Development Agenda 2030, which calls for integrating environmental dimensions into sustainable development, as well as the EU–Central America Association Agreement, which seeks enhanced cooperation on improving environmental quality. It complies with the New European Consensus on Development that calls to integrate environment and climate change throughout development cooperation strategies. The Action will also contribute to objectives under the EU Green Deal aiming at conserving and restoring ecosystems

¹⁶ 2020 Annual Report – Central Bank of Honduras (April 2021)

¹⁷ Memoria Cosecha 2019-2020.: <https://www.ihcafe.hn/>

¹⁸ About 4.5 Million kilo bags per year which makes Honduras the fifth exporter worldwide. <https://ico.org/prices/ml-exports.pdf>

¹⁹ Honduras, Human Development Reports (2019). http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/HND.pdf

²⁰ 2020 Annual Report – Central Bank of Honduras (April 2021)

and biodiversity; it will also focus on addressing challenges and harnessing the opportunities offered by the green transition and digital transformation. The Action will take into account the Gender Action Plan III (GAP III). The Action will contribute to address the interlinkages between SDGs 11, 13 and 15, as well as SDG 5 related to equal access to natural resources and SDG 10 focusing on safe migration and well-planned policies.

The EU is one of the key cooperation partners present in the climate change and natural resource management sector in Honduras, with over EUR 200 million invested in forestry and agriculture since 2007. The ratification and implementation of the first and only VPA FLEGT in Latin America is among the main achievements this Action will support. The VPA FLEGT process in Honduras is noted for its participation, involving indigenous peoples in addition to civil society, private sector and the government, in the VPA Technical Committee. Indigenous peoples participation is known for the advancement in Human Rights in the context of the right to Free Prior and Informed Consent (FPIC) in the of ILO Convention 169 and the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP). Moreover, the EU Council Conclusions on Indigenous Peoples 2017 state a similar commitment to implementing FPIC in EU funded programmes²¹.

While the Honduran National Climate Change Strategy (2011) addresses both adaptation and mitigation objectives, it falls short on how exactly the Government plans to go about in its implementation. To this end, the National Decarbonisation and Climate Resilience Strategy (2020-2030), will include various models needed to decarbonise the economy by 2050 in six sectors (energy, transport agriculture, industry, residues, forestry). This will test all-around, realistic pathways to decarbonisation and diagnose the tools needed for the Country to reach a carbon neutral economy by the year 2050.

Food producers and European consumers are among the main driving forces in the deforestation process in Honduras. The action responds to several national priorities, which call for a low-carbon and resilient economy by 2050. The action will demonstrate how CSA production and cultivation modes can result in carbon sequestration, greenhouse emission reduction and habitat restoration, in a country that hosts 7% of the planet's biodiversity. By drawing on EU tools such as the VPA FLEGT, it is hoped that Honduras will make a strong case in Latin America to show concrete and sustainable progress towards climate change. Future AAPs may continue to support similar interventions in other value chains such as husbandry and cacao.

Deforestation caused by conventional food production contributes to soil degradation and impoverishment. Currently, the international crisis in coffee prices - the main agricultural export item for Honduras - together with the loss of food crops, places the country on the brink of a potential socio-economic crisis. The Action seeks to support the increased resilience of stakeholders to shocks and therefore to ease social tensions.

2.2. Problem Analysis

Short problem analysis:

As global demand for coffee has grown, so has the need for conventional coffee production in tropical ecosystems. Such demand pressured producers to accelerate coffee production by clearing new forest areas in order to accommodate increased production. Consequently, different ecosystems have been destroyed and interfered with the migratory patterns of various fauna and flora, which have resulted in an overall decrease in biodiversity levels, including in Honduras, where coffee production is the main source of revenue for more than 110,000 coffee producers and creates more than one million jobs²².

Deforestation caused by conventional coffee production contributes to soil degradation. Deforested areas, following coffee production, exposed top soil to extreme weather conditions and as a result nutrient rich top soil is eroded. As a result, coffee producers abandon such areas in their quest to discover new nutrient rich soils which are often found in newly unexploited forested areas. Conventional coffee plantations also demand a huge amount of water to function. Coffee processing plants often improperly discharge waste and waste water into rivers, creating pollution and contamination problems and causing eutrophication of the water systems that supply urban settlements, and kill aquatic organisms. Under conventional coffee production, and in a forest sector dominated by small farms, food producers dedicated to coffee production have been drastically reducing their income due to their conventional

²¹ The Council underscores the crucial importance of further enhancing opportunities for dialogue and consultation with indigenous peoples at all levels of EU cooperation, including in EU funded programmes and projects under all aid modalities to secure their full participation and their free, prior and informed consent in a meaningful and systematic way. (Ref: <https://www.consilium.europa.eu/en/press/press-releases/2017/05/15/fac-indigenous-people/>)

²² Memoria Cosecha 2019-2020.: <https://www.ihcafe.hn/>

practices typical of the linear economy, creating a strong dependence on intermediary buyers and creditors that forces them to sell their crops at prices very low and below the international market. It is for this reason that the Action proposes the integration of multipurpose farms to make it possible to expand biological wealth, diversify production and reduce dependence on monocultures in the face of a market that is becoming very unstable.

Honduras is amongst the world's top producers of coffee²³, which grows in medium and higher altitudes. The country however suffers from structural weaknesses due to climate change impacts such as the concurrence of successive phenomena like hurricanes, floods and droughts. Immediate post Hurricane Eta and Iota weather conditions favoured an outbreak of leaf rust in five departments of Honduras which hampered overall production. A stronger outbreak is expected during the 2021 rainy season (May-November) due to higher levels of humidity compared to the last two years. The majority of the small and medium sized producers do not have access to further credit to invest in farm management. The lack of maintenance to the coffee farms represents a risk for the spread of coffee rust and other diseases further pushing farmers to look for new crop areas.

Women contribute to the coffee sector at all levels of the global coffee value chain however the economic returns of women in agriculture are often lower than those of their male peers and they are directly impacted by the structural weaknesses due to climate change. Currently, the international crisis in coffee prices, the main agricultural export item for Honduras, together with a loss of crops linked to climatic events, places the country on the brink of a new humanitarian crisis. Climatic variations over the years and successive droughts and floods have caused losses in agricultural production, the main activity that provides income and food for Honduran agroforestry producers.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

Coffee and timber producing organisations and cooperatives representing some 2000 families, of which 50% are concentrated in coffee production, resilient crops, such as bananas which are adapted in local conditions and offer together with timber trees much needed shade that maintain among others, soil humidity and bloc destructive winds. Such symbiosis of diverse crops increases the potential source of income of smallholder farmers. About 25% of the beneficiaries will be people living in vulnerable situations such as women and youth, including women and girls with disabilities or indigenous background. The target group for water governance will be the water boards and other local organisations present in the area of influence and that by law would be part of the governance structures, as well as the total population of the hydrographic basins targeted.

Instituto de Conservación Forestal, Áreas Protegidas y Vida Silvestre (ICF)²⁴ is the national competent authority in charge of administering policies, plans, programmes and projects related to forest resources. The Institute is tasked with the sustainable management of forests at the public, private and community levels, ensuring the social, anthropological²⁵ and economic development aspects such ecosystems contain. The ICF is the signatory on behalf of the Honduran government of the VPA FLEGT and its mandate is to oversee the overall rollout of the VPA. The ICF will also be responsible for the procurement of Technical Assistance related to the designing and testing of a Timber Legality System.

Civil society represented by:

- a. Civil Society Financing for Development (FfD) organisation with the capacity to manage micro credits borrowed by International Finance Institutions (IFIs) including European Development Finance Institutions. Such an organisation will work to strengthen the institutional capacities of local governments and local level saving banks with a focus on financing natural resources through strengthening ecosystem services. Its mandate will be to develop microcredit culture in the area of intervention, seek credit financing and eventually scale up such initiatives into a larger intervention under the EFSD+ instrument.
- b. Civil Society Organisation with experience in the implementation of Climate Smart Agricultural practices including agro-ecological principles. Its mandate would be to provide climate smart solutions in agricultural production in the forestry and agricultural sector.
- c. Local communities most impacted by climate change issues and migration.

²³ About 4.5 Million kilo bags per year which makes Honduras the fifth exporter worldwide. <https://ico.org/prices/m1-exports.pdf>

²⁴ <https://icf.gob.hn/>

²⁵ Forests provide home to indigenous peoples ethnic cultures

3. DESCRIPTION OF THE ACTION

3.1. Objectives and Expected Outputs

The Overall Objective (Impact) of this action is to conserve forest and biodiversity, increase carbon sequestration and reduce migration caused by climate change impacts²⁶.

The Specific(s) Objective(s) of this action are:

- SO1: Adapt current agricultural practices by introducing Climate-Smart Agriculture
- SO2: Increase access to differentiated markets with better quality products
- SO3: Increase control of illegal timber activities
- SO4: Enabling frameworks for a carbon free economy in place²⁷

The Outputs to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:

- Output 1 contributing to SO1: Agro-ecological principles are considered based on plant diversity, polyculture, agroforestry systems, animal integration, organic matter, soil cover, and water harvesting.
- Output 2 contributing to SO2: Agroforestry business models are established: licenses and certifications of specialty coffees are obtained, and technologies taking advantage of nature-based solutions are adopted.
- Output 3 contributing to SO3: A timber legality System is partially designed by the beneficiary government.
- Output 4 contributing to SO4: Interventions for the implementation of the National Decarbonisation and Climate Resilience Strategy (2020 – 2050) are designed.

3.2. Indicative Activities

Activities related to Output #1:

- Provide technical assistance - particularly to women's organizations and cooperatives - to carry out agricultural practices toward climate resilient production that promotes deforestation-free commodities with emphasis on agro-ecological models to support water and conservation measures;
- Implement product certification mechanism for market access²⁸;
- Provide credits for the acquisition of climate friendly equipment in order to promote environmental protection and ecosystem services;
- Carry out capacity building on climate friendly credit mechanisms disaggregated by gender and indigenous status, age and disability;
- Design and test water management tools and establish water basin councils for sustainable and localised water management. Awareness raising and sensitization actions towards women's empowerment and new masculinities.

Activities related to Output #2:

- Carry out diagnostic analyses and inventories;
- Implement adaptive practices such as the incorporation of native timber species as a source of energy and protein for animal species, in agroforestry;
- Carry out activities in line with circular economy (by-products of crops, maintaining soil fertility, reducing pollutants and pollution);
- Provide assistance toward coffee and timber certification schemes;

²⁶ In line with the Nationally Determined Contribution o to restore 1.3 million hectares of forest

²⁷ Ensuring coherence between economic and environment policies across relevant areas such as the business environment, finance and investments, employment).

²⁸ About 40% coffee, 15% cocoa and 15 % resistant crops, 20% silvopastoral, and 10% timber.

- Carry out in situ visits - network with strategic cooperatives;
- Capacity building in alternative technologies, clean energy, reduction of chemicals and reuse of waste disaggregated by gender and disability.

Activities related to Output #3:

- Review and update the mechanism of timber mobilization guidelines;
- Carry out training workshop on compliance with the National Legality System (SALH);
- Develop new management guides for pine and broadleaf forests;
- Adjust existing gender sensitive guidelines and manuals to build a single national supervision system;
- Comply with voluntary certification schemes;
- Draft digital timber transport licensing system and test it on a pilot level;
- Organise coordination meetings for the VPA FLEGT secretariat, stakeholders, and inter-institutional fora;
- Carry out pilot testing in selected timber producing operating sites, and seek certification schemes.

Activities related to Output #4:

- Draft modelling scenarios needed to achieve zero carbon neutrality by 2050 in various sectors, including those prioritized under the EU-Honduras Team Europe Initiative;
- Draft road maps needed to meet GHG objectives and identify technologies and synergies with existing policies;
- Analyse how transversal issues like gender, disability, youth, and indigenous peoples, are integrated in the execution of the National Plan and how FPIC protocols and processes are put in place;
- Provide gender-sensitive assessments on migration and climate change and support resilience community-based plans to reduce migration;
- Test realistic pathways to decarbonisation in order to identify future interventions for financial and technological support and pave the way to work under new implementation modalities including budget support and private investments.

3.3. Mainstreaming

Environmental Protection & Climate Change

The action's principal objective contributes to EU objectives in terms of financial support for biodiversity and/or climate change. The EIA (Environmental Impact Assessment) screening is therefore category C (no need for further assessment), and climate risk is low risk and there is 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 Gender equality and empowerment of women and girls will be reinforced by strengthening the access of women to jobs, entrepreneurship opportunities in the green economy.

According to the registry of producers of the Honduran Coffee Institute (IHCAFE)²⁹, there are more than 20,000 women coffee producers, generating around one million quintals of coffee each year, which represents, 20% of the national production. Honduran women participate in all the processes of the production chain. Women have demonstrated to be good coffee producers, with a knowhow on the management of their farms, and good tasting and barista skills. Women therefore, make up an important segment of the coffee producing registered workforce while the informal sector represents some 85% of the 120.000 family run coffee producers.³⁰

It is important to have policies that promote women to be included and generate greater opportunities for them to participate in the coffee production chain.

²⁹ <https://www.ihcafe.hn/>

³⁰ *ibid*

For this reason, the Action is aligned with the recently approved Gender Policy for the Coffee Sector in Honduras³¹, and with the EU Gender Equality Strategy (2020-2025)³². This new gender policy has four strategic pillars:

- 1) Strengthen coffee institutions and organisations in addressing social and gender inclusion;
- 2) Increase and improve access to services and resources for women and young people working in the sector;
- 3) Develop and strengthen the leadership capacity of women and youth who work in the sector;
- 4) Integrate key actors and cooperation in the conversation about gender and social inclusion issues, to create awareness, coordinate actions and promote change.

The Policy was formulated in a participatory manner with a youth focus, and is integrated into existing coffee policies and fosters inclusion, equity and generational succession in the coffee subsector in alliance with “*Solidaridad*”, the International Alliance of Women in Coffee (AMUCAFE) and the National Institute for Women (INAM). The Action will establish credit fund agencies that will be managed by women and that will target and capacitate women only. This is expected to create the conditions for women to maintain their own agroforestry coffee cultivation production units. Gender also intersects with different identities, such as gender and disability, gender and indigenous populations, which will be considered when supporting women coffee producers.

The action contributes to the Gender Action Plan III (GAP III, 2021-2025), more specifically “addressing the challenges and harnessing the opportunities offered by the green transition and the digital transformation” and “promoting economic and social rights empowering girls and women”.

Human Rights

The Action operationalises the rights-based approach by ensuring that all rights are respected, and that empowerment, participation, non-discrimination, accountability, and transparency are promoted. It will capacitate "rights-holders" in claiming their rights and "duty-bearers" in meeting their obligations. Particular attention will be given to climate change displaced people, define a political/legal framework and facilitate registration and documentation.

The main Action's intervention zone (El Paraíso) is not known for large hydroelectric projects and mining activities, which are the main cause of environmental defenders' human rights violations over the last decades in Honduras³³. Indigenous peoples in their efforts to defend their human rights have often been marginalised over the lack of enforcement of ILO 169 and UNDRIP requirements on FPIC and other indigenous peoples' rights since Honduras has ratified the Convention in 1995. In addition, the Action intends to carry out pilot testing of a Forest Governance Legality System in the zones of Olancho and Francisco Morazán, in selected timber processing sites³⁴, which are not directly linked to local indigenous communities but will address equal labour rights for workers in the timber industry.

Disability

The action will not specifically target persons with disabilities. However, among the main target groups of women and youth access of women and youth with disabilities will be promoted by facilitating accessibility to buildings and facilities used by the project and to information and training. Reasonable accommodation for participants with disabilities will be provided. These will be access to local authority bundling such as Water Boards to enable the provision of services and their participation to public hearings, digitalisation of services to enable persons with disabilities to have access from their home, and survey analysis among the beneficiaries to identify special needs in the context of the implementation of this Action.

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1.

Democracy

The circular economy, as an instrument to decouple economic growth in the intervention zone from resource use and environmental impact, opens up the way for a post COVID-19 resilient recovery. It will addresses the negative impacts of the linear economy, build long-term resilience, generate business and economic opportunities, and provide

³¹ Consejo Nacional de Café. Política de Género en el Sector Café de Honduras (2020)

³² Objectives: closing gender gaps in the labour market and achieving equal participation across different sectors of the economy. https://ec.europa.eu/info/policies/justice-and-fundamental-rights/gender-equality/gender-equality-strategy_en#:~:text=The%20key%20objectives%20are%20ending,gender%20balance%20in%20decision%252Dmaking

³³ Honduras has consistently been one of the deadliest countries in the world for land and environmental defenders. Global Witness. <https://www.globalwitness.org/tagged/honduras/>

³⁴ Talanga, Honduras: <https://www.google.com/maps/place/Talanga,+Honduras/@14.3976117,-87.0681959,11z/data=!4m5!3m4!1s0x8f6f0e40afcc16c7:0xca0ad8cccb17a7be!8m2!3d14.4137091!4d-87.0873978>

environmental and societal benefits. In this sense, it is hoped that the targeted beneficiary population will become more affluent and therefore, ready to engage in democratic participation. For example, priorities will shift from seeking to meet basic nutritional needs to how to participate in local governance including water boards in an aim to maximise sustainable economic investment in the communities. Democratic stability is therefore expected to be strengthened.

Conflict sensitivity, peace and resilience

The Action is going to strengthen existing grassroots organizations and promote associations linked to climate finance. For example, family farming with a gender perspective and technological innovation based on the circular economy will be promoted. A strong relationship will be established between municipalities, educational institutions and civil society organizations in water governance, preservation and restoration of micro-watersheds, as well as the designation of origin of their differentiated products. Organizations will be supported in conflict management and youth involvement in resilient productive actions. Conflict prevention will also be promoted through the appropriate implementation of FPIC protocols for activities that may affect indigenous peoples' lands, livelihoods and socio-economic and cultural rights.

In recent years, Nicaragua's political stability has declined³⁵ causing much conflict and instability within the country, and creating the risk of spill over effects in Honduras. Considering that the main Action's intervention zone (El Paraíso) is adjacent to Nicaragua's main coffee producing regions (north-central), it is hoped that successful implementation of the activities will create positive externalities in Nicaragua in terms of promoting a circular economy and building climatic resilience. The border between the two nations, while guarded and with COVID-19 permissions requirements, is nevertheless considered very permeable in terms of domestic trade and services. For example, following the hurricane season in 2020 that impacted both nations equally, local populations of the intervention zone and adjacent zone exchanged services and goods in an attempt to rebuild the local economies.

Disaster Risk Reduction

Building resilience, in a Climate Smart Agricultural context, requires the examination of the diversity of natural hazards affecting agriculture and food security. Due to climate change, a multiplicity of hazards are already eroding livelihoods and compromising food security within Honduras. Mapping multiple risk scenarios for sustainable planning will therefore be part of the Action's agro-ecological approach to CSA, which will provide local authorities with a better understanding of climatic risks, vital for local policy formulation, planning and decision making. In this regard synergies with other EU funded operations aiming to reinforce DP and DRR capacities will be actively sought.

Other considerations if relevant

N/A

3.4. Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
External	Risk #1: Extreme climatic variations continue to cause droughts, storms and hurricanes threatening forests and agricultural production.	H	H	The government is preparing a National Plan for Reconstruction, which will lay out a series of measures aiming to mitigate the impact of extreme weather conditions. Such measures include forest ecosystem restoration.
External	Risk #2: International coffee prices continue to fall threatening the economy of local population and increasing	M	H	The implementation of Climate-Smart Agriculture will also focus on quality and the development of specialty coffees in an effort to reduce the risk of price fluctuation. For example, product certification schemes and "Designation of

³⁵ https://www.theglobaleconomy.com/Nicaragua/wb_political_stability/

	the need to migrate for better opportunities			Origin” labels would target value added. Experience includes the 2020 Ernesto Illy International Award, given to Honduran producers.
External	Risk #3: Political crisis and civil unrest following an electoral year creates instability.	M	H	Implementing partners of this action include Civil Society organisations, which are expected to provide continuity to the Action’s activities, regardless of the electoral outcome.
External	Risk #4: Farmers and timber producers are reluctant to change their management practices.	M	M	Implementing partners of this action include Civil Society organisations, which are expected to provide capacity building on financial mechanisms designed to support field-level conservation and ensure economic benefits for local communities.
	Risk #5: Rights of indigenous peoples such as FPIC are not properly implemented, causing discontent in communities and possible reputational damage for the EU	L	L	The EU should maintain the ongoing dialogue within the context of the VPA FLEGT in regards to the fulfilments of article 6 of the ILO 169.

Lessons Learnt

- Governance in the forest sector needs to be improved further: According to the EU Court of Auditor³⁶, EU support so far in the forest sector, has contributed to improved governance and managed to change institutional culture to move away from forest commercialisation towards forest conservation. The Action addressed forest, water governance in an agroforestry context.
- The modernization of the forest sector is a complicated process and must be addressed in a methodological step by step approach. In the context of the EuroFor programme³⁷ support was given to the negotiation process of the VPA FLEGT, which led to the initialling and the signature of this Agreement. The Action considers support to the establishment of the National System to Ensure the Legality of Forest Products.
- The rate of deforestation in the country, caused by a strong migration of people to forested areas, is far more rapid than estimated: The Action is the second of its kind pioneering in the context of providing financial incentives for climate change adaptation to decrease deforestation. The first initiative is the project for Climate for Biodiversity: Reducing Supply Chain Deforestation in the Rio Plátano Biological Reserve³⁸.
- Deforestation has also caused the loss of native species crucial in the process of natural regeneration³⁹. New interventions must therefore seek innovative approaches to restauration such Climate-Smart Agriculture considered in this Action.
- Agricultural producers under the implementation of PROGRESA⁴⁰ are no always aware of the potential of their lands to increase productivity and quality: The Action foresees capacity building and marketability of coffee products in international product quality awards schemes.

Scaling-up: this intervention, together with Climate for Biodiversity: Reducing Supply Chain Deforestation project, are pilot initiatives aiming to achieve, partially, the NDC of restoring forest areas. If successful, both interventions could be used as example for the Government to seek international assistance to implement similar actions at a

36 The effectiveness of EU support to priority sectors in Honduras. https://www.eca.europa.eu/Lists/ECADocuments/SR16_30/SR_HONDURAS_EN.pdf

37 Proyecto de Modernización del Sector Forestal, Adaptación al cambio Climático en el sector Forestal, Programa de Apoyo Presupuestario al sector Forestal

38 ENV/2019/042-229

39 The Red Granadillo tree is a native species that offers symbiosis with other organisms essential for natural regeneration to take place.

40 Desarrollo Competitivo, Inclusivo y Sostenible de las Cadenas de Café y cacao fino de Aroma en el Departamento del Paraíso y Choluteca y Valle

national level and in other value chain sectors. Moreover, the action will establish the mechanism for much needed inter-institutional coordination in the long-term implementation of the VPA FLEGT.

3.5. The Intervention Logic

The proposed geographic area of intervention for this Action will be in the El Paraíso region in the South-East of Honduras. The El Paraíso region was chosen because it is the second largest food and oldest timber-producing region in the country.⁴¹ It is also an important hydrological area giving birth to two main waterways⁴² and its forests catch a considerable amount of moisture replenishing much-needed aquifers. Moreover, the El Paraíso region is adjacent to Nicaragua, sharing very similar ecosystems and agricultural modes of production. Demonstrating successful outputs through this project could potentially stand to have positive regional spinoff effects in the communities across the border.

The intervention logic is based on the fact that if:

- Agro-ecological principles are established based on plant diversity, polyculture, agroforestry systems, animal integration, organic matter, soil cover, and water harvesting, and,
- Agroforestry business models are established and promote licenses and certifications of specialty coffees and adopt technologies taking advantage of nature-based solutions⁴³, and,
- A timber legality System is partially designed and tested, and,
- Interventions for the implementation of the National Decarbonisation and Climate Resilience Strategy (2020 – 2050) are also designed and tested,

and if:

- Innovative technologies that improve productivity and quality become accessible to coffee and timber producers,
- Coffee and timber producers continue to maintain high expectations to sign credit contracts in exchange for the restoration of forest in their productive areas,
- The newly elected government will continue to provide funding for the implementation of the Paris Agreement and the VPA FLEGT,

Then:

- Agricultural practices will be adapted causing restoration of existing agricultural lands. As a result, deforestation will be reduced and pressure on forested areas will diminish as there will be no need to seek new “fertile” productive land. Biodiversity will be enhanced and water systems will be replenished. In the long-term, the NDC target to restore 1.3 million hectares will be partially achieved.
- The new agricultural practices will also integrate trees with food producing crops. As a result, valued timber will be legally harvested and in the long turn, this new mode of agricultural production will increase carbon stock capacity and reduce LULUCF⁴⁴ emissions.
- Access to differentiated markets with better quality products will be secured. As a result, productivity will increase, sustainable livelihoods will be secured, poverty will decrease, food and nutrition security will improve and there will be no need to migrate. In the long run a carbon free circular economy will be in place.

The Action will be monitored to ensure that NDC objectives are being met, while contributing to the preservation and restoration of ecosystems and biodiversity as per Team Europe Initiative objective. If successful, a larger-scale type of intervention could be considered, and potentially funded under the European Fund for Sustainable Development Plus (EFSD+) financial instrument.

⁴¹ To be noted that the area of intervention is a very different geographic region from the Rio Plátano area, where another EU intervention is ongoing. Rio Plátano is located on the Caribbean coast in the north-east of Honduras; there, another EU intervention is ongoing that also seeks to integrate CSA techniques into the bovine and coffee value chain.

⁴² Rivers of Patuca and Rio Choluteca

⁴³ Providing access to innovative and inclusive climate friendly financial incentives through micro credits, linking those to protection / restoration of forest land

⁴⁴ Land Use, Land-Use Change and Forestry

3.6. Logical Framework Matrix

Results	Results chain (a): Main expected results	Indicators (a):	Baselines (2021)	Targets (2026)	Sources of data	Assumptions
Impact	The Overall Objective (Impact) of this action is to conserve forest and biodiversity, increase carbon sequestration and reduce migration caused by climate change impacts.	1) Proportion of important sites for terrestrial and freshwater biodiversity that are covered by protected area ⁴⁵ 2) Number of refugees and asylum-seekers of concern to the UNHCR by situation ⁴⁶ disaggregated by sex, age and disability	1) 74,000 ha 2) 23,850 migrants	1) 18,000 ha ⁴⁷ 2) 15,000 migrants	National Communications to UNFCCC National Institute of Migration Reports Office of the High Commissioner for Human Rights	<i>Not applicable</i>
Outcome 1	Adapt current agricultural practices by introducing Climate-Smart Agriculture .	Agricultural and pastoral ecosystems where sustainable management practices have been introduced with EU support (ha) ⁴⁸	200 ha	5.000 ha	Existing Administrative Reports from project partner implementing output 1	Innovative technologies that improve become accessible
Outcome 2	Increase access to differentiated markets with better quality products.	Number of beneficiaries with access to financial services with EU support: a) firms, b) individuals ⁴⁹ disaggregated by sex and disability	100 female heads of households under models of agroforestry saving banks	500 female heads of households under models of agroforestry saving banks	Existing Administrative Reports from project partner implementing output 2	Coffee and timber producers are encouraged to enter in credit
Outcome 3	Increase control of illegal timber activities .	Number of Micro, Small and Medium Enterprises in the Forest Sector applying Sustainable Consumption and Production practices with EU support ⁵⁰	zero	10 MSMEs and cooperatives desegregated by sex	Government Statistics provided by ICF	Government continues to pursue the VPA FLEGT

⁴⁵ Level 1.25 indicators - EU Results Framework

⁴⁶ Level 1.20 indicators - EU Results Framework

⁴⁷ MIP indicator PA1:b.2 is 21,000 ha annually

⁴⁸ Level 2.4 indicators - EU Results Framework

⁴⁹ Level 2.13 indicators - EU Results Framework

⁵⁰ Level 2.20 indicators - EU Results Framework

Outcome 4	Enabling frameworks for a carbon free economy in place (i.e. ensuring coherence between economic and environment policies across relevant areas such as the business environment, finance and investments, employment).	Number of sectors / supply chains where Sustainable Consumption and Production has been supported (Number of sectors / supply chains) ⁵¹	zero	6 sectors	Existing Administrative Reports from Technical Assistance	Government ratifies the Paris Agreement
Output related to Outcome 1	Agro-ecological principles are considered based on plant diversity, polyculture, agroforestry systems, animal integration, organic matter, soil cover, and water harvesting.	Greenhouse Gas (GHG) emissions avoided (tonnes CO ₂ eq) with EU support ⁵² Number of people trained by the EU-funded intervention who increased their knowledge of and/or skills in using innovative agroforestry techniques, disaggregated by sex, age, disability and ethnicity	75,000 (tonnes CO ₂ eq) per year	70,750(tonnes CO ₂ eq) per year ⁵³	National Communications to UNFCCC	
Output related to Outcome 2	Agroforestry business models are established: licenses and certifications of specialty coffees are obtained, and technologies taking advantage of nature-based solutions are adopted.	Number of women smallholders reached with EU supported interventions aimed to increase their sustainable production, access to markets and/or security of land	zero	350 women smallholders	Existing Administrative Reports from project partner implementing output 2	
Output related to Outcome 3	A timber legality System is partially designed by the beneficiary government.	Number of Sustainable Consumption and Production scaling-up mechanisms established (e.g. technical tools, voluntary agreements, codes of conducts, standards and labels) ⁵⁴	zero	2	Government Report provided by ICF	
Output related to Outcome 4	Interventions for the implementation of the National Decarbonisation and Climate Resilience Strategy (2020 – 2050) are designed.	Number of carbon free economic policy instruments realised (Number of policy instruments) ⁵⁵ Resilience and migration local plans	zero	1 policy instrument	Existing Administrative Reports from Technical Assistance	

⁵¹ <https://europa.eu/capacity4dev/results-and-indicators/99827/results-indicators>

⁵² Level 2.21 indicators - EU Results Framework

⁵³ At least 0.34 MtCO₂eq emission reduction per year. MIP.PA1:SO1:target-A

⁵⁴ <https://europa.eu/capacity4dev/results-and-indicators/99827/results-indicators>

⁵⁵ ibid

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the Government of Honduras represented by the *Instituto de Conservación Forestal, Areas Protegidas y Vida Silvestre* (ICF)

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 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 measures⁵⁶.

4.3.1. Direct Management (Grants)

4.3.1.1 Direct award

a) **Purpose of the grant:** Envisaged to carry out the actions in relation to the development of an inclusive climate-financing model.

b) **Type of applicant:**

Civil Society Financing for Development (FfD) organisation selected using the following criteria:

- Should maintain a sensitisation-capacity building programme about financial education that specialises in strengthening institutional capacity for local governments and local level saving banks with a focus on financing natural resources through strengthening ecosystem services.
- To minimise risks, should be able to provide financial training focusing on credit education that ensures the establishment and strengthening of rural saving banks and cooperatives considering the strengthening of ecosystem services.
- Have a predominant position in the micro-financial market in rural areas of Honduras with specialised experience in rural micro-credit schemes and related financial services (micro-insurance, remittances, and eco-service payments).
- Have considerable experience (e.g. 15 year plus) on climate-smart agriculture, resilient crops and agro-marketing activities in the country.
- Have existing agreements and demonstrated good financial collaboration with commercial banks and public financial institutions for due diligence assessments, channelling resources and capacity building about credit requests submitted by potential beneficiaries.

c) **Justification of a direct grant:** Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals

⁵⁶ 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.

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because the action has specific characteristics requiring a specific type of beneficiary for its technical competence and specialisation:

- Providing micro credits in remote rural areas is risky. Absence of credit culture is mainly characterised by lack of a saving behaviour and lack of understanding of the value of lending institutions in terms of sustainability. Slow yielding results from micro credits investments is the main cause of borrowers to migrate, leaving behind their financial obligations (overdue payments). In this context, micro credit culture in such areas must first be developed in order to mitigate such risks.
- Financial credit education must therefore be provided in order to ensure that local rural saving banks generate their own savings and demonstrate that such savings have been lent out and paid back, before the Action steps in to provide additional financial credits from larger banks. The model builds up the basis by which credit culture is established for local saving banks and cooperatives to successfully carry out micro credits schemes.
- Large financial institutions such as *Banco Hondureño para la Producción y la Vivienda* (BANHPROVI), the Central American Bank for Economic Integration (CABEI), the Honduran Commercial Financial Bank (Banco FICHOSA) in order to avoid financial risk, would seek to collaborate with intermediaries capable of preparing, on their behalf, the ground before they can step in and directly lend to cooperatives in such areas.

4.3.1.2 Call for proposals

a) Purpose of the grant: Envisaged to carry out the actions in relation to the adaptation of agricultural practices.

b) Type of applicant: Civil Society

- Know-how in climate-smart landscapes methodology that create a favourable environment for the adoption of climate-smart practices contributing to the process of green recovery of ecosystems and the improvement of the livelihoods of small producers;
- Experience in implementation of climate-smart landscapes and the application of agro-ecological principles;
- Experience in the implementation of comprehensive projects in the coffee chain with a focus on inclusive models, market access, business management, technological innovation, processes of certification and facilitation of access to financing and bankability;
- Know-how as regard to the development market-based services that increase productivity, link markets with farmers, and strengthen input supply services;
- Must be able to strengthen the productive capacities of small and medium producers through the development of market systems for technologies and inputs combined with innovative methods in smart agriculture (agro-ecological principles);
- Must be able to strengthen the dialogue between value chain actors: authorities, research partners and investors from the public and private sectors, in order to accelerate the adoption of climate-smart agricultural practices and commercial solutions that address adaptation and mitigation of value chains;
- Experience on the development of climate-smart landscape solutions that promote, among others, the promotion of public-private partnerships, the financial inclusion mechanism and water governance models, including micro-watershed management, and community watershed management.

The call for proposal will be launched during the last term of 2021 under a suspensive clause prior to the adoption of this Decision, if needed. This is justified because in November 2021, Honduras is expected to hold national elections, leaving most of the government authorities to function only administratively until there is a transition to the next administration. This means that authorities will refrain from taking any decision, including those related to implementing cooperation initiatives until well into 2022. Part of the

Action foresees indirect management with the government, which is expected to be delayed. In order not to hamper further the implementation of the Action, this component of the Action must be accelerated.

4.3.2. Direct Management (Procurement)

For Specific Objective 4, designing interventions under the National Decarbonisation and Climate Resilience Strategy, a tender call will be launched to identify the best service provider. The Decarbonisation Strategy addressed under this objective will include various models needed to decarbonise the economy by 2050 in various sectors, including those prioritized under the EU-Honduras Team Europe Initiative. The provider will test all-around, realistic pathways to decarbonisation. This will serve as the basis for future AAPs to be formulated and pave the way to work in this sector under new implementation modalities, such as budget support.

The Call for Tender will be launched during the last term of 2021 under a suspensive clause prior to the adoption of this Decision, if needed. This is justified because in November 2021, Honduras is expected to hold national elections, leaving most of the government authorities to function only administratively until there is a transition to the next administration. This means that authorities will refrain from taking any decision, including those related to implementing cooperation initiatives, until well into 2022. Part of the Action foresees indirect management with the government, which is expected to be delayed. In order not to hamper further the implementation of the Action, the other components, such as grants and Technical Assistance, must be accelerated.

4.3.3. Indirect Management with the Partner Country

A part of this action (under Output #3), with the objective of designing legality systems in forest governance in order to test pilot timber producing operating sites, may be implemented in indirect management with the Government of Honduras according to the following modalities:

The partner country will act as the contracting authority for procurement and grant procedures. The Commission will control ex-ante all the procurement procedures except in cases where programme estimates are applied, under which the Commission applies ex-ante control for procurement contracts above EUR 100,000 (or lower, based on a risk assessment) and may apply ex-post control for procurement contracts up to that threshold. The Commission will control ex-ante the grant procedures for all grant contracts.

Payments are executed by the Commission except in cases where programmes estimates are applied, under which payments are executed by the partner country for ordinary operating costs, direct labour and contracts below EUR 300,000 for procurement and for grants.

The financial contribution covers, for an amount of EUR 1,300,000, the ordinary operating costs incurred under the programme estimates.

The partner country shall apply the Commission's rules on procurement and grants. These rules will be laid down in the financing agreement to be concluded with the partner country.

The contracting authority for these activities shall be the *Instituto de Conservación Forestal, Áreas Protegidas y Vida Silvestre (ICF)*. An imprest administrator and an imprest accounting officer, and their deputies, shall be appointed for the management and implementation of the programme estimate by the contracting authority, in agreement with the Head of Delegation.

In accordance with the powers delegated to them by the partner country authority that appointed them, the imprest administrator and the imprest accounting officer shall draw up and implement the programme estimate, award contracts and grants, commit expenditure and make the corresponding payments.

The imprest administrator and the imprest accounting officer shall submit their technical and financial reports to the project steering committee, where applicable, and to the *Instituto de Conservación Forestal, Áreas Protegidas y Vida Silvestre (ICF)* and a copy to the Head of the EU Delegation.

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

In the event of circumstances outside of the Commission's control, such as the entry into power of a new government, or the failures of call for proposals to identify capable applicants, actions as described in sections 4.3.1, 4.3.2 and

4.3.3 will be managed with a Direct Grant, without a call for proposal, with a European Member States organisation in the form of a Delegated Agreement.

4.4. 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 realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.5. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)	Third-party contribution (amount in EUR)
Implementation modalities		
Outcome/output 1: Adapt agricultural practices <i>Carbon stocks are increased and biodiversity is enhanced</i>		
Call For Proposals (Financial institution) – cf. section 4.3.1.2	3,300,000	500,000 ⁵⁷
Outcome/output 2: Allow access to sustainable market <i>Agroforestry business models are established</i>		
Direct Grants (Financial institution) – cf. section 4.3.1.1	1,800,000	N.A.
Outcome/output 3: Design legality systems in forest governance <i>Pilot testing in selected timber producing operating sites, and certification schemes are carried out</i>		
Indirect management with the Government of Honduras	1,300,000	N.A.
Outcome/output 4: Prepare for Implementation of the National Decarbonisation and Climate Resilience Strategy (2020-2050) <i>The implementation of the National Decarbonisation and Climate Resilience Strategy is reinforced</i>		
Procurement (direct management) – cf. section 4.3.2	800,000	
Grants – total envelope under section 4.3.1	5,100,000	N.A.
Procurement – total envelope under section 4.3.2	800,000	N.A.
Evaluation – cf. section 5.2 Audit – cf. section 5.3	100,000	N.A.
Contingencies	150,000	N.A.
Totals	7,450,000	500,000

⁵⁷ Co-financed by the Civil Society Organisation for Development (CSO)

4.6. Organisational Set-up and Responsibilities

The organisation and responsibilities of those involved in the implementation of this Action are as follows:

- The *Instituto de Conservación Forestal, Áreas Protegidas y Vida Silvestre* (ICF) is responsible for the overall execution of the Action.
- The ICF is also responsible for ensuring that Technical Assistance is provided. The Institute will contract services with regards to analysing the various pillars of the National Decarbonisation and Climate Resilience Strategy (2020 – 2050), and developing possible interventions for future Annual Action Programmes under the MIP (2021-2027).
- The ICF is responsible for contracting services with regards to executing pilot testing in selected timber producing operating sites in the context of the VPA FLEGT.
- Civil Society Financing for Development (FfD) organisation is responsible for the activities related to the design and implementation of inclusive financial mechanisms for the climate. All activities carried out by this financial institution will be in coordination with ICF and CSO work as regards to Climate Smart Agricultural activities of the Action.
- Civil Society Organisation for Development (CSO) will be responsible for executing all activities in relation to implementing its methodology for Climate-Smart Agriculture. All activities are to be carried out in coordination with ICF.

The strategic management and decision-making of the action will be assumed by two committees, one managerial and the other operational:

- Steering Committee: meets twice a year and is made up of ICF, Financial Organisation for Development, Civil Society Organisation, and the EU, and will be in charge of the broad / political monitoring of the intervention.
- Operational Committee: meets quarterly and is made up of ICF, Financial Organisation for Development, Civil Society Organisation, and will be in charge of monitoring and implementing the intervention activities. Both meetings will be open to the participation of the beneficiaries, for example, coffee growers, representatives of rural savings banks, women producers, water board representatives with the objective of ensuring ownership of the application of financial inclusion in the intervention area.
- The ICF offices in Danli, El Paraíso will be made available for said meetings in view of their proximity to the Action's main intervention zone. In addition, the use of teleconferencing technologies is foreseen given the budgetary limitations to organize such meetings.

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.

4.7. Pre-conditions

N/A

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 log frame 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:

- Reports shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action.
- The final report, narrative and financial, will cover the entire period of the action implementation.

5.2. Evaluation

Having regard to the importance of the action, a mid-term and a final evaluation(s) will be carried out for this action contracted by the Commission. The evaluation will be gender and human rights sensitive, assess gender equality and human rights results and implementation of human rights-based approach working principles (participation, non-discrimination, accountability and transparency). A mid-term evaluation will be carried out for problem solving, in particular with respect to risk identified in section 3.4.

The Commission shall inform the implementing partner at least three months 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 shall be shared with the partner country 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, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

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.

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 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

Option 1: Action level		
<input type="checkbox"/>	Single action	N.A.
Option 2: Group of actions level		
<input type="checkbox"/>	Group of actions	N.A.
Option 3: Contract level		
<input checked="" type="checkbox"/>	Single Contract 1	<p>Outcome/output 1: <i>Agro-ecological principles are considered based on plant diversity, polyculture, agroforestry systems, animal integration, organic matter, soil cover, and water harvesting.</i></p> <ul style="list-style-type: none"> foreseen grant contract 1: (3,300,000)
<input checked="" type="checkbox"/>	Single Contract 2	<p>Outcome/output 2: <i>Agroforestry business models are established: licenses and certifications of specialty coffees are obtained, and technologies taking advantage of nature-based solutions are adopted,</i></p> <p>foreseen grant contract 1: (1,800,000)</p>
<input checked="" type="checkbox"/>	Single Contract 3	<p>Outcome/output 4: <i>A timber legality System is partially designed by the beneficiary government.</i></p> <ul style="list-style-type: none"> foreseen grant contract 1: Technical Assistance (800,000)
<input checked="" type="checkbox"/>	Group of contracts 1	<p>Outcome/output 3: <i>Interventions for the implementation of the National Decarbonisation and Climate Resilience Strategy (2020 – 2050) are designed.</i></p> <ul style="list-style-type: none"> foreseen grant contract 1: VPA FLEGT inter-institutional coordination (300,000) foreseen grant contract 2: Develop voluntary licensing schemes under Programme Estimate (600,000) foreseen grant contract 3: identify the gaps and inconsistencies in the existing legal framework under Programme Estimate (400,000)