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**REPUBLIC of HONDURAS**

**Multi-annual Indicative Programme 2021-2027**

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## **1. The overall lines of the EU international cooperation in the partner country/region**

### **1.1. Basis for programming**

Honduras, a lower middle-income country located in Central America, faces a series of profound structural risks such as institutional weakness, pervasive corruption, impunity, links between the institutions and organised crime, widespread violence, human rights violations, climate change, environmental degradation, irregular migration and internal displacement, economic uncertainty and health challenges resulting from COVID-19. All together, these challenges present a serious destabilizing potential that was exacerbated by a double crisis endured in 2020 due to the impact of COVID-19 and to hurricanes Eta and Iota, thereby heightening tensions and weakening the political and social fabric.

**Institutional weakness** coupled with pervasive **corruption** –in an all-time low Honduras ranks 157 out of 180 countries in the 2020 Corruption Perception Index–, continue to cripple governance and to widen the gap between government and civil society,

Despite the positive trend in the last 10 years, **violence is still widespread** and should be considered a structural risk factor. Even if the homicide rate has plummeted, from 87 violent deaths per 100,000 people in 2011 to 37.5 in 2020, Honduras still ranks as one of the most violent countries in Latin America and the Caribbean, way above the regional average (39 violent deaths per 100,000 people – 2018, World Bank<sup>1</sup>).

**Human rights continue to be a major concern.** NGOs and human rights defenders are frequently subject to harassment, attacks and murders with impunity rates as high as 90% according to the UN special rapporteur for human rights defenders. Women and groups such as the LGBTI community are particularly vulnerable. Honduras has the highest femicide rate and the highest murder rate of LGBTI persons in Latin America. According to Reporters Without Borders, Honduras ranks 151 out of 180 countries in terms of freedom of press, with a negative trend in the last five years.

Honduras is subject to **severe climate risks** which can cause long-term development setbacks, as was the case with the catastrophic Hurricane Mitch of 1998, and more recently by the impact of hurricanes Eta and Iota in 2020. Over the past 20 years, Honduras has consistently ranked among the top three countries globally in terms of climate risk. Hurricanes and tropical storms, mainly in the Atlantic coast, but also severe drought and water scarcity, particularly in the region known as the “Dry Corridor”, are among the chief risk factors, with food insecurity being a significant concern.

**Irregular migration and internal displacement** are also structural factors that need to be taken into account. In 2020, despite the border closure due to the pandemic, some 7,500 Hondurans left their country as part of several “caravans” bound for the US. UNHCR estimates that almost 250, 000 Hondurans are currently internally displaced, mainly due to gang violence, extortion and threats. The economic and social crisis resulting from COVID-19 and the hurricanes that struck in 2020, with the industrial region of the Sula valley being particularly affected, will most likely be an important push factor in the upcoming future.

The **health emergency** caused by COVID-19 continues to be a major risk factor. Even if the official data shows a limited impact (226,719 cases and 5.960 deaths<sup>2</sup>), figures are thought to be much higher, as testing capacity in the country is very low (2,000-3,000 tests per day). Vaccine reception and rollout

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<sup>1</sup> <https://data.worldbank.org/indicator/VC.IHR.PSRC.P5>

<sup>2</sup> Data at 17/05/21

has covered so far less than 3% of the population, and is expected to be slow throughout 2021, which will hamper both the health and economic recovery as well as confidence in the country's institutions.

The **economic situation** in 2020 has been dramatically affected by the onset and development of the COVID 19 pandemic, associated by two successive devastating hurricanes in November. Their *economic and social impact* has been unprecedented. Despite efforts by government and financial institutions to mitigate the economic consequences of COVID-19, growth estimates for 2020 have dropped to at least -10% of GDP (Central Bank of Honduras). The International Labour Organization (August 2020) indicates that in Honduras 40.2% of total employment is at high risk, that is, around 1.6 M jobs, with women mainly affected.

The European Union (EU) and its Member States (MS) are key actors for the economic and social development of Honduras. Official Development Assistance (ODA) represents more than 2% of GDP of which 22% is provided by EU and its MS. In the last twenty years, Europe has significantly financed the provision of basic services for the most vulnerable population; the strengthening of national capacities for the implementation and management of sustainable public policies; job creation and economic growth; the protection and promotion of human rights, including labour rights, transparency and increased democracy and the responsible management of natural resources and rural development. In a context of weak institutions, limited fiscal space for financing public policies, serious mishaps in the rule of law, high levels of poverty and limited regional integration, the role and contribution of the European Union and its MS has taken on increased relevance and importance. In the recent past the formulation and approval of an EU/MS joint strategy further strengthened the EU reputation and its relevance in the policy dialogue with the Government of Honduras (GoH) and other key stakeholders.

The present Multi-Annual Indicative Programme (MIP) builds upon previous EU-funded interventions and reinforces the EU profile in the country. It emphasizes EU values and interests notably through a "greener" approach to climate change, in line with the EU "Green Deal" priorities, it reduces/mitigates "economic" irregular migration flows thanks to job creation and finally it promotes fundamental EU values such as rule of law, democracy, gender equality and fight against gender-based violence.

The strategic vision of the Government of Honduras is reflected in the "Visión de País 2010 – 2038" for long term planning, the "Plan de Nación 2010-22" that provides a mid-term strategic guidance to achieve the long-term vision, and the "Plan de Gobierno 2018-2022" that reflects the short-term efforts under the Government's mandate. The last document outlines seven strategic priorities: boosting innovation, widening access to credit for households and small and medium-sized enterprises, enhancing the country's role as a Central American logistics hub, promoting education and health, strengthening security and defence, promoting investor confidence, and fighting corruption. This strategic framework is complemented by a series of sectoral policies, initiatives, action plans and programmes such as Horizonte 20/20, Agenda Digital, Gobierno Abierto, Plan de Transparencia y Lucha contra la Corrupción, etc. However, it has to be taken into account that those strategic plans were made much before the strong impact of the COVID-19 pandemics and of the hurricanes ETA and IOTA that hit the country in November 2020. The Government incorporated Sustainable Development Goals (SDGs) into the Government Plan 2018-2022, prioritising all 17 SDGs, 67 of 169 targets and 94 of 232 indicators through the National Agenda 2030. It should be mentioned that possible changes might be introduced by the incoming new government 2022-2026.

Overall, the above-mentioned strategic national development framework (including the National Agenda 2030) represents an adequate basis for the EU programming as it is realistic and it takes into account the constraints, challenges and opportunities of the country.

The GoH's priority areas identified above are aligned with EU/Commission strategic priorities 2019-24, notably in terms of Green Deal, Economic Recovery, Digitalisation, and promotion and strengthening of Democratic Values. Furthermore the priority sectors identified in the MIP are fully aligned with the recent Sustainable Reconstruction and Development Plan (PRDS), elaborated by the GoH in response to the dramatic effects of two devastating hurricanes of November 2020.

Three priority areas are proposed in the MIP and their respective percentage financial weight may be summarised as follows:

- Sustainable Management of Natural Resources and Climate Change: 45%
- Employment, Decent Work and Growth: 25.7%
- Rule of Law and Democratic Governance: 20.7%

Accompanying measures (Measures in favour of civil society and Cooperation Facility) will account for up to the remaining 8.6%

Gender equality is a fundamental priority of the EU and as such it will be mainstreamed around all the policy objectives above. A Rights Based Approach will also be applied to all the areas of intervention. Actions focusing on the protection and participation of women and girls in the post ETA/IOTA recovery should be prioritized.

In addition synergies with other EU programmes operating in the regional area will be sought where relevant, such as for the INTERREG programme financed under the European Regional Development Fund (ERDF).

### **1.2. Status of joint programming**

An EU Joint Programming Document (JPD) was approved in July 2019. This document has been shared and discussed with Government, civil society and private sector, and includes a joint analysis, a joint response and a results framework. Joint Programming in Honduras involves three EU Member States (Germany, France and Spain), plus Switzerland, and the EU Institutions. It covers the period 2019-2022, in alignment with the 2010-2022 Government's "Plan de Nación", and reiterates the European core values of democracy, human rights, rule of law, gender equality, social justice and environmental sustainability as the underlying foundations of cooperation with Honduras. EU MS have shown strong commitment to align themselves to the JPD.

The JPD focuses on 4 priorities: decent employment and economic growth; decentralization and local development; sustainable management of natural resources and adaptation to climate change; and the rule of law and democratic governance, corresponding to SDGs 1, 2, 6, 8, 13, 15 and 16.

In July 2020, EU and MS presented a Team Europe Initiative (TEI) on Climate Change and Natural Resources Management. The TEI aims at addressing and tackling climate change using a comprehensive multi-sectoral approach at national and local level, accompanying country's efforts through a wide range of instruments (policy dialogue, budget support, blending and guarantee schemes, projects, technical assistance, VPA FLEGT<sup>3</sup>, etc.). This initiative involves the EU and its MS agencies<sup>4</sup> and financial institutions<sup>5</sup> in the context of implementation of the EU joint programming strategy. Of the four pillars of the JPD, Climate Change, in line with the EU Green Deal, has gathered the interest and efforts of the EU and of all MS to make substantive impact by joining forces.

Through the TEI which is fully embedded into the programming document, EU will support Honduras to meet its Paris Agreement targets by establishing a resilient low carbon economy, developing a medium- to long-term vision that identifies clear objectives and incorporates all relevant sectors and also strengthening climate governance and greening the economy.

### **1.3. Priority areas of the EU's cooperation with the partner country/region**

The EU will support Honduras in achieving its vision, sharing common strategic objectives of poverty reduction, equitable growth, and sustainable development in its economic, social and environmental dimensions, as well as enhancing good governance, the rule of law and human rights. Consequently, the three priority areas selected for EU cooperation for the period 2021-2027 are: **1) sustainable**

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<sup>3</sup> Voluntary Partnership Agreement – Forestry Law Enforcement, Governance and Trade

<sup>4</sup> GIZ, AECID, and COSUDE

<sup>5</sup> EIB, KFW

**management of natural resources and climate change; 2) employment, decent work and growth and 3) rule of law and democratic governance.** The interlinkages between the three prioritized areas are designed to maximise the impact of EU interventions. Climate change and the sustainable use of natural resources are a top priority for both Honduras and EU to fulfil political and operational commitments towards international agreements. It fully fits into the EU Green Deal and reinforces the position of the EU as a key actor on decarbonisation and climate resilience. Sustainable agricultural practices are expected to create **green employment** opportunities, with a particular emphasis on creating jobs for women and youth. Moreover, by increasing the skills of the labour force through vocational training coupled with technological innovation among micro, small, and medium sized enterprises (MSMEs), interventions will seek to boost employment and economic growth. **Good governance, transparency and fight against corruption** are a prerequisite to reduce conflicts, increase investments opportunities, and ensure the protection of human rights.

The EU is uniquely positioned to assist Honduras in the priority area of **sustainable management of natural resources and climate change** as it has been collaborating with the country on forests since the bilateral cooperation cycle of 2007-2015. After lengthy and difficult negotiations, the EU and Honduras concluded the first and only Voluntary Partnership Agreement on Forest Law Enforcement, Governance, and Trade (VPA FLEGT) in Latin America. Such agreement will strengthen among other, governance in a forest sector dominated by agroforestry food and timber producers. To this end, building on actions under the food security and nutrition sector (former MIP), actions under this MIP will include the promotion of deforestation-free supply chains, and the implementation of climate-smart agriculture value chains in order to achieve Honduras NDC commitment to restore 1 million hectares of forest. By doing so, the rates of deforestation will be reduced, biodiversity will be protected and restored, and local green economy will be strengthened.

This MIP will further consolidate the work of the EU on forests in Honduras by supporting their multi-functional role in stimulating growth, creating jobs, reducing inequalities and promoting inclusive societies. These efforts will help to address climate change and biodiversity conservation in the context of a full Forest Partnership that will contribute to the implementation of the EU biodiversity strategy and the EU Communication on stepping up EU action to protect and restoring the world's forests. The choice of this priority area is also based on the Team Europe Initiative (TEI) elaborated in 2020 by the EU and its EU Member States, which has a strong focus on the VPA FLEGT and reflects this partnership approach.

As far as the second priority area is concerned, **employment, decent work and growth**, the EU has been supporting the Government of Honduras since 2014. The policy framework includes three main pillars: the Employment Policy (2017) that defines the orientations till 2028; the Joint Action Framework (2018) that involves policy dialogue across the government, workers' unions and private enterprise, and the Strategic Institutional Plans of central government institutions that operate the actions under the Policy. Support to employment remains extremely relevant as, in the aftermath of tropical storms ETA and IOTA, the Government's priority is to reconstruct Honduras' infrastructure and its economic and social structure. The Government will focus i.a. on promoting the growth of small and medium enterprises; stimulating the productive sector; restoring damaged infrastructure and easing access to education, health and social protection for the most vulnerable population. Support for the promotion of an enabling environment for business development as well as for improving employability, will enhance the private sector's role in development particularly, SME's corporate social responsibility through impulse of its commitment to sustainable economic development, improvement of life quality in their local communities and add value to society as a whole.

In the priority area **rule of law and democratic governance** the issues of human rights violations, impunity, corruption, or lack of transparency have been a long-standing concern. Recent allegations of corruption linked to the procurement of medical equipment in the context of the covid-19 pandemic or the rise in femicides have raised again national and international concerns on the issue. It is paramount to continue promoting good governance, transparency initiatives, social accountability and gender related actions through policy dialogue with authorities and civil society organisations (CSO), including

social partners. The generalized climate of violence, widespread impunity, the erosion of democratic governance and increase in inequality represents a major obstacle for the development of Honduras and undermines the legitimacy of State institutions. This area will therefore remain a priority of EU-Honduran relations. The EU can play a key role in consolidating development gains in the country through strengthening institutions, accompanying the efforts towards the separation between powers, and addressing persistent impunity and corruption. In addition, the EU can contribute with expertise to pursue human rights-based reconstruction efforts. Noting these situations, it is in the EU's interest to promote the protection of vulnerable groups, including women, indigenous communities, and people with disabilities in line with ILO Convention C111, and fight against child labour and promotion of decent work are equally instrumental in fighting against inequalities.

#### **1.4. Justification and context**

The priority areas for strategic engagement have been identified on the basis of the EU and Member States' key interests, consistent priorities and fundamental principles and values, additionally they further build on the Commission strategic priorities 2019-2024. Political, social and economic stability are key shared objectives with Honduras and remain of strategic importance for stability in Central America and the wider region. The actions further described in this MIP will allow the EU to accompany Honduras towards a green and inclusive development model while addressing the need to reinforce key aspects of the country's democratic system. Within this framework and in order to address long-standing structural challenges, exacerbated by the COVID-19 pandemic, the following three priority areas have been identified and are elaborated on below: 1/ sustainable management of natural resources and climate change; 2/ employment, decent work and growth; 3/ rule of law and democratic governance.

Honduras – a lower middle-income country – 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). 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. Honduras still presents one of the highest homicide rates in the world, despite a reduction in the last years. In addition, power is concentrated within a small political elite 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, therefore provide fertile ground for corruption that heavily curtails government credibility.

Covid-19 crisis is seriously affecting Honduras at the health, economic and social levels. An already weak and badly equipped health system is struggling to cope with the crisis. The business sector, particularly the micro, small and medium businesses which mostly operate in the informal sector, has been severely impacted by closures and restrictions. In Honduras, 81.4% of the entire employed population has an informal job. Therefore, the impact of the crisis is reflected in the increase in informality, but also in a decrease of household incomes, although partially mitigated by an unexpected increase of remittances (+2% compared 2019) totalling approx. 5.8 billion USD. Young people must face high unemployment and underemployment rates, and are more vulnerable to a decrease in labor force demand, especially those less qualified due to lack of training opportunities. Women are also a particularly important group, since the pandemic has evidenced their dedication to extensive work in the front line such as nurses and health care workers. Women bear a disproportionate workload in the welfare or care economy due to schools or care centres unavailability. The COVID crisis has exacerbated the human rights challenges in the country and domestic violence has significantly increased since the curfew was established. Reduced domestic revenues of the State and increased expenditure to respond to the crisis is putting pressure on the treasury in terms of liquidity, despite support from the main International and Regional Financial Institutions<sup>6</sup>. A staff level agreement on a new IMF programme

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<sup>6</sup> Inter-American Development Bank, World Bank, Central America Bank for Economic Integration, among others.

was reached in 2019. The 24-month Stand-By Arrangement and Standby Credit Facility allow for a loan of 143 M\$ disbursement early 2020. This crisis is causing a substantial blow to the goals and ambitions of the Government, bringing the country decades back on some parameters like poverty, food security, formal employment, inequalities, etc. Its impact thus underlines the need for the EU to support recovery efforts.

Recommendations from Court of Auditors to the Performance Audit (2016) and last follow up achieved in 2019, have been fully and successfully integrated in the MIP 2014-2020 and have been taken in consideration for the present MIP. The priority areas are considered as a continuity of actions led during past MIP. They fully integrate the recommendations made by the audit of European Court of Account (2015) and its follow up conclusions (January 2020). The priority area 1 extends the food security approach (MIP 2013-2020) to a broader climate change adaptation strategy not only for the agricultural production sector but also for the forest and urban sectors. Priority areas 2 and 3 will be strengthened on the basis of actions implemented in the framework of last MIP. The MIP takes also into account strategic options to enhance the EU's collective long-term conflict prevention and peacebuilding impact proposed by the Conflict Prevention Report of Early Warning System mission (2020), mainly by supporting inclusiveness of the electoral process through civil society (priority area 3), fostering policy dialogue on structural risks of conflict (priority area 3 and support measures), protecting of human rights (priority area 3), fighting climate change and managing natural resources (priority area 1), and enhancing oversight and analytical capacities of civil society (support measures).

Priority areas were presented to and agreed by government, civil society and private sector, and shared with other donors. The three priority areas have been agreed with EU MS in the context of Joint Programming and will build upon the already well established EU/MS cooperation activities.

Priority area on **sustainable management of natural resources and climate change** is in line with south-south commitments. The third Latin American and Caribbean Congress on Protected Areas (Lima 2019) called for the conservation of biodiversity through developing and implementing innovative economic tools such as climate financial mechanisms that improve the efficacy of funds available for the conservation of protected areas and biodiversity, and leverage poverty reduction, health, and climate change risk mitigation. The underlying rationale of this priority area is based on the recognition that while Honduras' contribution to global greenhouse emissions (GHG) is small, the country's vast forests play an important role in global carbon capture and storage as well as in biodiversity conservation. Such added values are critical to EU interests and priorities as a global leader on Climate Change. Through this priority area the EU enters in partnership with Honduras to support meeting the Honduran Government Paris Agreement targets through the implementation of the national "decarbonisation strategy".

The priority area of **employment, decent work and growth** is in line with Honduras' commitment to moving forward regarding the implementation of the National Employment Policy particularly, in increasing competitiveness for micro, small and medium enterprises (MSMEs) and addressing the skills deficit of the Honduran labour force. In this sense, the EU's contribution to the employment sector takes into account the EU's own principles of building a greener, more digital and more resilient Europe. Actions under this approach aim to contribute to the improvement of technical and professional education and training considering digital transformation; increasing private sector participation and promoting research and innovation for micro and small enterprises (MSMEs). Lessons learned from the previous MIP point towards the EU as a strategic partner for Honduras in terms of contributing to sector governance and advising the Government to comply with international labour agreements as well as tripartite agreements based on social dialogue, including the effective implementation of the ILO Fundamental Conventions, as referred to in the EU-Central America Association Agreement, more specifically Conventions 87 and 98 on Freedom of association and collective bargaining, Conventions 29 and 105 regarding the elimination of all forms of forced and compulsory labour and Conventions 138 and 182 on the effective abolition of child labour. The EU's contribution to the employment sector delivers important lessons for the replicability and sustainability of its interventions. Strengthening of employment institutions and its policy framework; the creation of an employment information system and the consolidation of a new employment services model are some of the innovative elements that led

to an improvement of the Government's effectiveness in addressing the sector's specific needs. Additionally, civil society organizations with the EU's support were key partners in placing employment in the local authorities' public agenda and accompanying the government's efforts in extending employment services to all citizens and promoting decent employment.

The third priority area, **rule of law and democratic governance**, focusing i.a. on increasing accountability and transparency, is closely inter-related with the first two areas, underpinning and preconditioning their pace of reform and success. Within all areas there will be close cooperation with the Government, civil society, private sector and other development partners to ensure aid effectiveness and transparency in the use of public resources. Gender equality and empowerment of women and girls will be mainstreamed and a rights-based approach will be pursued in all three areas, in line with the Gender Action Plan III and the European Consensus on Development. The findings of the updated Gender Country Profile for Honduras will be taken into account for the next steps of the programming exercise, as well as the priorities set out in the GAP III Country Level Implementation Plan. Importantly, actions in this sector will build upon the EU's past involvement in democratic processes and follow up on the recommendations of past EU Election Observation Missions (2013, 2017), as well as the 2019 Election Follow-Up Mission. More emphasis will be placed on the implementation of the Human Rights and Democracy Country Strategy for Honduras, especially with regards to the protection of human rights defenders. Also in line with EU priorities on digital transformation, all interventions will take advantage of the potential of digital technologies to leverage impact.

The EU's integrated response will ensure complementarity and coherence between cooperation under NDICI and other EU instruments. In the past Honduras has benefited from a number of LAC regional programmes and hopes to continue building on these interventions: Euroclima+ (EU-LAC Climate Change Programme) for priority area 1, EUROsociAL and EU-LAC Social Cohesion Programme for priority areas 2 and 3; AL-Invest 5.0 (EU-LAC Investment) for priority area 2; EL PAcCTO (Europe Latin America Technical Assistance Programme against Transnational Organized Crime) programmes for all the three sectors, among others. Moreover, under the framework of sub regional cooperation with the *Sistema de Integración Centroamericana* (SICA) Honduras has also benefited from support in the areas of regional economic integration; security and rule of law; climate change and disaster management. Support Measures for cooperation will maintain strong relationship with CAPTAC-DR (Regional Technical Assistance Centre for Central America, Panama and the Dominican Republic). The EU Delegation to Honduras strengthens the articulation with these programmes through systematic coordination, information and joint missions when available or pertinent. Complementarity with regional Team Europe Initiatives, such as the Team Europe Initiative on Justice and Security in Latin America and the Caribbean should also be explored.

The EU aims to strengthen its relationship with Civil Society through the "Roadmap for Engagement and Dialogue with Civil Society" which serves as the framework for relations and priority areas of intervention. This Roadmap is structured around three priority areas of joint work which seek to address strategic aspects to strengthen the role and the functioning of CSOs in Honduras. The first priority aims at contributing to an enabling environment for CSOs in the country related to the legal, institutional and regulatory framework for CSOs and to a safe environment for human rights defenders. The second priority aims at strengthening the participation and structured dialogue of CSOs in the policies, strategies and projects implemented by the EU and the Member States. The third priority is to strengthen the technical capacities and knowledge management of Honduran CSOs. Synergies and integration with the Human Rights and Democracy Country Strategy for Honduras, currently under preparation, will be sought at all levels to foster the EU approach and impact.

### **1.5. Duration of the MIP and option for synchronisation**

The duration of this MIP is seven years covering the period 2021-2027. The "Plan de Nación 2010-22" and the "Plan de Gobierno 2018-2022" are both ending in 2022. A new Government should be in place by 2022, and will define a new national strategic framework. Therefore, a mid-term review (MTR) can be foreseen for 2024, a year after the entry in force of a new NDP and new Government Plan. Furthermore a revision in 2024 will allow for an in-depth analysis and implementation of the post



hurricanes' PRDS and the validation and application of the EFSD+ instrument in the country. Furthermore a MTR of the MIP will feed the discussions on the new Joint Programming Document which is expected to be reviewed/reformulated in 2023. Discussions will take place with EU MS about the possibility to extend the validity of the current JPD till 2024.

## **2. EU support per priority area and proposals of Team Europe Initiatives**

### **2.1. Priority Area 1 : Sustainable Management of Natural Resources and Climate Change**

Honduras together with Nicaragua, hosts the second largest forest reserve in Mesoamerica, which maintains 7.5 percent of the planet's biodiversity, and regulates climate by producing atmospheric moisture and rainfall. About 20% of Honduras forests are primary. About 31% of forest-risk commodities, particularly coffee and palm oil, and 2% of timber commodities of Honduras are exported for European consumption. **Halting deforestation and forest degradation in Honduras must therefore be combined with promoting sustainable climate-smart agriculture production.**

To date, the EU has invested 204 M Euro in Honduras during the last three cooperation cycles<sup>7</sup>, to strengthen governance in the environmental, forest and food security sectors. As a result of the EU and Honduras' political commitment, the first Voluntary Partnership Agreement on Forest Law Enforcement Governance Trade (VPA FLEGT) in Latin America was signed in 2021. The Honduras VPA process underlines above all three aspects of FLEGT governance as key in promoting sustainable use of natural resources. Supporting the implementation of VPA in Honduras is, therefore, one of the cornerstones of this priority area, coupled with the development of a broader Forest Partnership that will promote action to ensure that forestry and agricultural supply chains do not lead to deforestation and forest degradation. The EU-Honduras VPA process has been one of the most participatory to date. Civil society has been a driving force in these negotiations, which are remarkable for their inclusiveness. Honduras is the only country in which indigenous people have been included as a specific stakeholder category in the VPA. Good governance in the timber and in ecosystem-risk commodity sectors will halt and reverse deforestation driven by EU consumer demand. In the aim to hold global average temperatures well below 2° C levels, biodiversity and carbon sinks will be restored, and zoonotic diseases will be reduced.

Globally, the EU is committed to strengthening governance, land-use and land-tenure rights, and establishing land-use policies by directly addressing some of the causes of deforestation in line with the EU Communication on protecting and restoring the world's forests, the EU Biodiversity Strategy and the EU Farm to Fork Strategy. Regionally, the EU gains leverage as regards to the implementation of the Association Agreement between the European Union and Central America, which calls for a commitment to improve forest law enforcement, governance and trade of legal and sustainable forest products. The EU will also push for regional integration on climate change issues through the implementation of the Regional Energy Strategy of the Central American Integration System (SICA). The EU will pioneer supporting pilot initiatives in El Salvador and Honduras<sup>8</sup> aimed at developing the electro mobility strategies. This priority area is in line with the Americas and the Caribbean **Regional MIP as regards the transition towards a green and climate neutral development path.**

Nationally, Honduras' Country Vision Strategy (2010-2038), in line with the Paris Agreement, addresses climate change mitigation and adaptation measures in renewable energy and restoration of forestlands. It is in this context that the National Strategy against Illegal Logging (ENCTI), and a national Energy Agenda (2019-2021) have been adopted. The first two call for a legality framework while the later asks for the design of an implementation roadmap on electro mobility in the country. To solidify further its political alignment with that of the EU, Honduras declared a State of Climate Emergency in April 2021.

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<sup>7</sup> National Indicative Programmes (2000-2006), (2007-2013), (2014-2020)

<sup>8</sup> El Salvador, Honduras MIPs (2021-2027)

Honduras is in the making of a National Strategy for Decarbonisation and Climate Resilience<sup>9</sup> that provides the long-term basis towards a zero-carbon status economy by 2050. This Strategy will use the VPA to push good governance towards resilience in an agroforestry context seeking to improve the socioeconomic conditions in less accessible areas.

The EU in full Forest Partnership with Honduras will target two specific objectives in this priority area: (i) reduce its LULUCF<sup>10</sup> emissions and increase its carbon stock through **adaptation measures**<sup>11</sup>; and (ii) reduce greenhouse gases generated by the transport sector through **mitigation measures**<sup>12</sup>. These objectives match EU interests and priorities on climate change and environment and are in line with EU Green Deal policy areas of biodiversity and sustainable mobility. In terms of SDGs, the sector will contribute to SDG #11 Sustainable Cities, #13 Climate Action and #15 Life on Land.

### **2.1.1. Specific objectives related to the priority area**

SO 1: Land Use, Land-Use Change and Forestry (LULUCF)<sup>13</sup> emissions reduced and carbon absorbed compared to Business as Usual (BAU)<sup>14</sup> (**DAC Sector Code 312 – Forestry**).

Activities under this specific objective will strengthen natural resource governance by adapting existing practices in agriculture, forestry and aquaculture activities, which constitute the main causes of deforestation and biodiversity loss in terrestrial and coastal ecosystems. In line with the country's NDCs, activities will promote climate-smart agriculture (CSA<sup>15</sup>) in forest, agriculture and aquaculture value chains.

SO 2: Transport sectors emissions reduced compared to BAU (**DAC Sector Code 232 Renewable Sources**).

This specific objective will promote the shift of the highly polluting transport fleet of the country towards sustainable mobility. Activities under this specific objective will support the implementation of the roadmap towards electro-mobility. EU support towards sustainable transport is in line with the priorities set by EU member states (Germany) and Financial Institutions such as the Central American Bank for Economic Integration and the European Investment Bank.

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<sup>9</sup> Reach zero carbon economy by 2050

<sup>10</sup> Land use, land use change, and forestry, and coastal wetlands

<sup>11</sup> Adapt timber and ecosystem-risk commodity modes of production to climate friendly ones

<sup>12</sup> In sustainable transport sector

<sup>13</sup> Includes wetland, mangroves and coastal ecosystems. Scientific evidence shows that mangroves can sequester four times more carbon than rainforests

<sup>14</sup> 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.

<sup>15</sup> CSA is an integrated approach to managing landscapes that address the interlinked challenges of food security and climate change. CSA aims to simultaneously achieve, increased productivity by improving nutrition and food security, enhanced resilience by reducing vulnerability to drought, pests, diseases and other climate-related risks and shocks; and reduced emissions by avoiding deforestation and improving energy efficiency and soil-management.

### **2.1.2.Expected results per specific objective**

R1: Contribution to the restoration to one million three hundred thousand hectares of forest through improved value chain governance in the forest, agriculture and aquaculture sectors.

R2: Contribution to the reduction of sixteen percent of greenhouse gases by switching from conventional (fuel-based) transportation models to sustainable mobility.

### **2.1.3.Indicators (including baseline and targets), per expected result**

The main indicators for measuring these results are set out in the sector intervention framework in Attachment 1.

### **2.1.4.Possible use of blending and guarantees for investment under EFSD+**

Considering the decrease in Foreign Direct Investment (FDI) and the country's increased lending risk, the possible investments mobilised by the EFSD+ as regards to priority area 1 would require an inclusive dialogue with IFIs, the private sector and the GoH.

In recent years, about 260 M€ in climate change/natural resources related investments were financed by European Financial Institutions. About 77 % of the financing was directed to local banks to promote clean energy business operations, while the remaining 23% were in the form of sovereign loans. Germany in particular financed 47 €M in climate improvements in clean energy (including sustainable cities initiatives). France financed 172 M EUR to the private sector in climate improvements through renewable energy. The Ecobusiness Fund (where EU is a junior partner of the fund promoted by KfW) allocated 20 and 25 M USD loans to Honduran private banks respectively to contribute to biodiversity conservation and to the sustainable use of natural resources. Studies are on-going to evaluate the impact of such investments.

Regarding sovereign loans, over the 2014-20 period, the European Investment Bank (EIB) financed Sustainable Roads (79 M EUR), supported by LAIF blending, and approved a credit line for clean energy/solar plants initiative (34 M EUR). Together with multi-lateral partners at regional level, Honduras has been also benefited from other LAIF blending initiatives as the Ecobusiness Fund previously mentioned or Green MSMEs (CABEI, KfW) or water and sanitation for Tegucigalpa (AECID-Water and Sanitation Fund).

Giving continuity to these reimbursable operations, the MIP offers an opportunity for post-COVID green economic recovery and sustainable reconstruction/rehabilitation after the recent storms impact, by de-risking sovereign and private investments on climate change mitigation and adaptation initiatives. In close dialogue with climate change minded financial institutions<sup>16</sup>, blending operations will contribute to increasing concessions but additional guarantees could not be envisaged for sovereign loans from EU or Member States.

The private sector would be the main driver achieving the Honduras Paris Agreement targets. An enabling investment climate would therefore be needed to encourage bankable financial opportunities in achieving the country's NDCs. Through blending contributions, technical assistance will facilitate projects preparation, formulation, research and preliminary studies or build sectoral capacities in intermediary (private banks, guarantee companies, trust funds...) and government institutions. As a result, Honduras would have better access to regional guarantee funds and operations, designed to cover Central American needs. The regional approach is justified by the current uncertainty in terms of private funding appetite and today's liquidity of the banking system, the limited dimension of national financial markets and the intended architecture of guarantees through European financial institutions and, potentially, through regional financial institutions.

In the context of VPA FLEGT implementation, private-public dialogue would also address illegal logging and land tenure insecurity that currently hinder investments in forest and agriculture

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<sup>16</sup> IDB, EIB, KfW, CABEI

deforestation-free value chains. **Technical Assistance (TA)** would assist in the elaboration of project initiatives to accompany funding in two forms:

- **Blending to enable priority area pre-conditions** to replace polluting emitting vehicles with cleaner fuel vehicles, and provide financial incentives to shift to climate friendly value chains.
- **Innovative guarantees** to leverage additional funding by improving loan conditions which could encourage, for instance, the support to public and private transport cooperatives to convert vehicles to sustainable modes of transport. Guarantees could also back rural credit institutions on investments in order to shift traditional modes of agricultural production to more climate resilient ones for smallholders.

## 2.2 Priority Area 2: Employment, Decent Work and Growth

Honduras has an estimated 9 million inhabitants of which 53% are under 25 years of age. The Economically Active Population (EAP) represents only 46.1% of the population. Among the Central American countries, Honduras has one of the lowest participation rates in the labour market and the highest rate of self-employed workers. With the pandemic caused by the COVID-19 disease, the National Statistics Institute (INE) and the Labour Market Observatory (OML) of the Ministry of Labour estimate that the unemployment rate increased to 10.9% in 2020, resulting in a cumulative loss of approximately 445,000 jobs since 2019.

As of September 2020, the underemployment rate was 70.7%, mainly affecting the productive population in early ages. Currently, men and women are equally affected by underemployment with a rate of 70.5% and 70.8% respectively. Significant gender gaps persist regarding access to the labour market (47.81% of women in the workforce compared to 73.3% of men).

Exports of the country's main products (coffee, bananas and palm oil) decreased due to a global decline in demand. In addition, the suspension of employment contracts by some national companies during the pandemic directly impacted workers' and employers' income. Low coverage and poor quality of education are aspects that limit the labour force's possibilities of improving their employability. Since the Honduran population is predominantly young, the country can take advantage of this situation to enhance youth labour force skills and boost the country's development. In this context, it is in the EU's interest to support efforts by Honduras to eradicate child and forced labour and tackle informality, including the strengthening of its labour inspection capacity.

The government's commitment towards generating decent employment and promoting inclusive and sustainable economic growth are included in the 2017-2028 National Employment Policy, which is closely aligned to several SDG of the 2030 Agenda, mainly SDG 8 - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; and other related ones such as SDG 1- End poverty in all its forms everywhere; SDG 4 - Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all; and SDG 5 - Achieve gender equality and empower all women and girls. Since 2014, the EU has been committed to support the implementation of the National Employment Policy whose objectives are to: i) increase competitiveness; ii) facilitate the creation of more and better jobs; iii) address the skills deficit of the Honduran workforce; and iv) enable the environment for business development.

The foreseen contribution will continue to consolidate the Honduran employment policy framework considering the EU's own principles of building a greener, more digital and more resilient Europe. Actions under this approach aim to contribute to technical and vocational education and training enhancement; increase private sector engagement and promote research and innovation for micro and small enterprises (SMEs).

### 2.2.1 Specific objectives related to the priority area

SO 1: Support the Honduran labour force employability from a lifelong learning approach in coherence with the country's productive development needs. (**DAC Sector Code 11330** - Vocational training. Indicatively 50 % of sector contribution).

The EU's support can contribute to establish the strategic objectives to promote a long-term professional training process; innovating the teaching process and adapting technical curricula with digital skills for the Honduran labour force.

SO 2: Foster an enabling environment for the creation and development of micro and small enterprises through innovative credit access facilities and information technologies. (**DAC Sector Code 25030** - Business development services and **DAC Sector Code 32130** - small and medium-sized enterprises (SME) development. Indicatively 25 % of sector contribution respectively.)

Honduran entrepreneurs operate with very restricted budgets and do not have sufficient capital to invest in information technologies that may contribute to boost their market inclusion and improve their competitiveness. The EU's contribution can support innovative interventions that can lead entrepreneurs to develop their capacities to diagnose business problems and implement the adequate measures to enable their growth and expansion to new markets.

### 2.2.2. Expected results per specific objective

SO 1.

R1: Improved and strengthened management of technical and vocational education and training (TVET) institutions and their training centres.

R2: Extended coverage and improved relevance of TVET offer.

SO 2.

R1: Increased access of micro, small and medium enterprises to financial guarantee programmes.

R2: Improved access of micro and small enterprises to technological innovations based on local productive development and innovation plans.

R3: Improved national institutions and producers capacities to develop sustainable enterprises.

### **2.2.3 Indicators (including baseline and targets), per expected result**

The main indicators for measuring these results are set out in the sector intervention framework in Annex 1.

### **2.2.4 Possible use of blending and guarantees for investment under EFSD+**

Budget support combined with an EFSD+ financial package is one of the suggested modalities for implementing operations under this sector since it contributes to consolidating ownership of the employment policy, the technical and vocational education and training policy and strengthening capacities of key stakeholders at national and local levels. Blending and/or guarantees should accompany the private sector in specific objectives two and three and the corresponding results related to MSMEs' access to finance, market inclusion and innovation.

MSMEs have been targeted in regional LAIF blending operations such as Green MSMEs, DINAMICA I-II (including capital risk operations) or the Ecobusiness Fund. Considering the overlap with the first priority area there is a broad spectrum of innovative areas in which it might be possible to work with MSMEs to increase their competitiveness. For instance, clean energy, biodiversity conservation, and sustainable use of natural resources, resilient agriculture, smart green recovery, transport, digitalisation or circular economy. We should prioritize a combination of technical assistance and innovative guarantees for the private sector, with special attention to the financial system beyond the commercial private banks. It is strongly advised to promote access to funding for Financial Development Organisations (OPDFs), Credit Cooperatives or Rural Savings and Credit Banks, specially oriented to financially excluded people that would have an impact at territorial level over decent and formal job creation, inclusion and fight against poverty.

## **2.3 Priority Area 3: Rule of Law and Democratic Governance**

Widespread impunity, the absence of independent institutions, coupled with weak legal frameworks present a fundamental challenge to the rule of law and democratic governance. The erosion of checks and balances on executive power over the past decade, and particularly the weakening of judicial oversight, has created fertile ground for corruption and state collusion with actors engaged in illicit activities. Although the MACCIH (Misión de Apoyo contra la Corrupción y la Impunidad en Honduras) was successful in exposing networks of corruption, its mandate was not renewed by Honduran authorities. Systemic corruption is also linked to other issues, including violence and crime, irregular migration, inequality, underdevelopment, and slow growth. The economic losses caused by corruption are estimated at around 16% of the country's GDP<sup>17</sup>. This effectively undermines development of the country, confidence of its citizens in the government, and prevents progress in the eradication of poverty. In addition to weak and politicized democratic institutions, civil society has limited participation and the media landscape is considered as not free (Freedom House, 2020). Although general elections are held regularly these are sometimes followed by violent protest. The quality of electoral processes has been put into question and participation levels, especially from the youth, are declining. Women, youth and vulnerable groups continue to be largely excluded from party politics. The military, after decades of ruling Honduras, remains politically powerful and the recent appointments of military officials to civilian posts underscore that influence.

Despite the reduction of homicides, many of the country's security indicators still reflect worrying trends. Gender-based violence remains very high, with the country reporting the second highest femicide rate in Latin America. Women are also more likely to suffer from extreme poverty, as they make up the majority of Hondurans who survive on less than 2 USD a day.

The situation of human rights in Honduras remains critical, mainly concentrated in a growing conflict related to natural resources, environment and land tenure, as well as violence against women. Indigenous

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<sup>17</sup> WB source

groups and rural laborers are the most affected populations, however, there are also human rights violations and violence towards vulnerable populations at risk such as women, children, youth, journalists, the LGBTI community, migrants and forcibly displaced persons. Intimidation, harassment and criminalization of community organizers and civil society leaders have intensified in recent years, as reported by the Inter American Commission on Human Rights (IACHR) and the Office of the High Commissioner (OHCHR). Honduras is deemed to be one of the most dangerous countries for human rights defenders, ranked second in Latin America. The COVID-19 pandemic and the aftermath of the ETA/IOTA storms have exacerbated this situation and deepened socio-economic inequalities.

The EU response will address these rule of law challenges (SDGs 16), on both the demand-side and supply-side, focusing on areas where the EU has a comparative advantage and where results will have a greater potential impact on democracy and citizen's rights, enhancing accountability and transparency of State institutions, as well as enabling civil society and citizen's participation. Particular focus should be given to support citizens' actions to expose and follow-up on corruption cases and strengthening civil society organisations in their advocacy and watchdog capacities, including those linked to monitoring the States' compliance with international standards in the fight against corruption. Attention will also be paid to foster more inclusive and representative policies to deliver on citizens' demands and following up on recommendations of the EU Election Observation Missions, which so far have emphasized the importance of reforming electoral laws and key institutions.

Gender equality is a fundamental priority of the EU and as such will be mainstreamed around all policy objectives above. Special focus will be paid on supporting the country's efforts to make progress in achieving SDG 5.

Given the nature of this priority area and the country context, risks can be considered relatively high due to a lack of political will to address the main drivers of corruption. Furthermore, changes in the political context could lead to increased polarisation and thus jeopardise opportunities for democratic participation. The fiscal crisis brought on by the pandemic will most likely further reduce the Government's resources allocated to this sector.

### **2.3.1 Specific objectives related to the priority area**

SO 1: Support national efforts and provide institutional strengthening to guarantee the universal application of the law and protection of human rights, particularly focusing on transparency and the fight against corruption. (DAC Sector codes: 15113).

SO 2: Contribute to strengthening of the democratic system and increasing citizen participation with a specific focus on vulnerable groups, especially women (DAC Sector codes: 15150, 15151).

### **2.3.2 Expected results per specific objective**

For SO 1:

Result 1: Increased access to an effective and transparent justice system by all citizens.

Result 2: Independent audit institutions and other oversight bodies have the capacities to exercise their mandate.

Result 3: The Honduran State puts in place a comprehensive policy and monitoring mechanisms to effectively counter corruption, in line with international standards.

For SO 2:

Result 1: Improved democratic participation for vulnerable groups, including access to citizenship registration and electoral participation

Result 2: Improved capacity of electoral bodies and national authorities to conduct elections in an independent and transparent manner.

Result 3: Public policies will have integrated a gender perspective and will be designed, implemented and monitored with increased civil society involvement.

### **2.3.3 Indicators (including baseline and targets), per expected result**

The main indicators for measuring these results are set out in the sector intervention framework in Annex 3.

### **2.3.4 Possible use of blending and guarantees for investment under EFSD+**

It is not foreseen to use blending and guarantees in this priority area in a direct manner. That said it is hoped that in line with specific objective 2, gender equality will be mainstreamed under blending and guarantee operations in priority areas 1 and 2 in order to ensure attention to gender equality in investments targeting areas such as climate change, natural resources, job creation, resilient agriculture, value chains, etc. The elaboration of gender analysis, studies or methodological approaches will guide the eligibility of investment decisions in our intervention sectors.

## **2.4 Proposals of country/multi-country/regional Team Europe Initiative**

Following the joint assessment of Honduras with the EU Member States (MS) and subsequent consultations, **climate change and natural resources management** were identified as the main areas where European Partners can make a substantive impact by joining forces. This proposed Team Europe Initiative (TEI) is the genuine result of exchanges, meetings and interactive processes between the EU Delegation and the MS and is a step forward in the Joint Programming process. Each MS will bring on board its specific regional, sectorial and technical knowledge to further reinforce the effectiveness of



the action. The EU will work side by side with **Honduras to meet its Paris Agreement targets** by establishing a resilient low carbon economy through the implementation of the National Decarbonisation and Climate Resilience strategy. The Initiative will conserve Honduras rich biodiversity, boost its carbon sequestration capacity, and its economy through a “green recovery” path. Its implementation will allow for the creation of green jobs, including in the tourism sector, tackling one of the root causes of irregular migration, and seeking to protect the most vulnerable layer of the population against the impact of climate change. Combining both mitigation and adaptation measures, this initiative provided an adequate socio-economic response to the COVID impact.

The EU will accompany Honduran action on climate change and the environment through a comprehensive multi-sectoral approach at national and local level, accompanying the country’s efforts through a wide range of instruments (policy dialogue, budget support, blending and guarantee schemes, projects, technical assistance, triangular cooperation, etc.). Team Europe initiative will involve the EU and its MS agencies and financial institutions in the framework of the EU Joint Programming process that includes sustainable natural resources management and climate change as one of its priority objectives. By creating synergies between mitigation and adaptation measures, the proposed initiative focuses on 10 of the 17 SDGs.

EU support<sup>18</sup> has accompanied Honduras in meeting partially its international obligations in two of the **three Rio Treaties** (Convention on Biological Diversity, the Convention to Combat Desertification), as well as the Association Agreement between the EU and its Member States, and Central America<sup>19</sup>. Specifically, EU support has established the procedures toward regularizing lands as way to reduce land use conflict<sup>20</sup>, promoted democratic participation of Civil Society in the management of natural resources. In addition, EU support opened up the way toward the implementation of **ILO 169 Convention**<sup>21</sup> after almost 25 years of no action since Honduras has ratified this treaty. The political return of such support resulted in the commitment of Honduras to become the first nation in Latin America to sign a VPA FLEGT. Linking the VPA FLEGT with the National Determined Contribution objectives, and including it in the Team Europe Initiative, provides a political continuity for Honduras, to effectively govern natural resources, in light of climate change, while tackling corruption, criminality and safeguarding human rights. If implemented successfully, the political return of the Team Europe Initiative in Honduras will pin EU support on the regional map of Central America and set an example for similarly challenged countries<sup>22</sup> to follow suit.

EU’s Green Deal will be tailored to meet Honduras’ reality, needs and priorities. To this end the Team Europe Initiative will **focus on 2 of the 8 policy areas of the EU’s Green Deal**. In an attempt to help Honduras to meet its Paris Agreement targets, the TEI will support the husbandry, coffee, cacao, and other resilient agriculture value chains, in increasing the efficacy of their production, and reducing their dependence on land resources. While this will ensure food security and nutrition for future generations, it will also allow for the restoration of degraded land, ecosystems and biodiversity. Honduras will be ready to carry forward its Paris Agreement target to reduce 15% of GHGs through sustainable transport. The Honduras Decarbonisation and Climate Resilience Strategy will lay out the baseline for highly emitted greenhouses gas sectors that would need to be prioritized in light of the NDC targets.

The Team Europe Initiative will be closely coordinated with the governments of Costa Rica and Guatemala. The Honduran Decarbonisation and Climate Resilience Strategy is inspired after the one of Costa Rica. Honduras is seeking to exchange good practices with Costa Rica’s with the participation of academia. Guatemala has been implementing payments for environmental services in the forestry sector for ten years. Such payments have included incentives to plantation growers for reforestation activities. In addition, Guatemala has elaborated its own timber and wood products traceability system, which will

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<sup>18</sup> Honduras Country Strategy Paper 2007-2013 (68M)

<sup>19</sup> Article 20 of the Agreement

<sup>20</sup> Budget Support Programme on Forestry (PAPsFor)

<sup>21</sup> Consultations for the drafting of the Free, Prior , Informed Consent (FPIC)

<sup>22</sup> Corruption Perception Index : Nicaragua 161/98, Guatemala and Honduras 146/198

be much needed in the context of the VPA FLEGT. Such experience will assist Honduras to design and implement its own system of incentives under the Financial Inclusion Strategy for Climate Change. VPA FLEGT requires the effective participation of civil society and indigenous peoples and dialogue on issues pertinent to Human Rights (e.g. land disputes). To this end, Honduras is well positioned to advance in the signature and ratification of the Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters in Latin America and the Caribbean (**Escazú Agreement**).

The EU's indicative contribution to this TEI (EUR 57.6 M) is subject to the confirmation of the Team Europe partners' indicative meaningful contribution as early as possible. In the absence thereof, the EU's indicative contribution may be redirected in accordance with the priority areas of the MIP and their allocations. The obligation of the Union and the Member States to coordinate their development policies following initiatives by the Commission to this effect, as per article 210 TFEU, always applies.

## **2.5 Support to investments under the EFSD+**

Both blending and guarantees instruments in Honduras rest over a complex balance between needs, exacerbated by the pandemic, the impact of natural disasters, the fiscal space and evolution of the macroeconomic conditions affecting country-lending rating. While the sovereign risk remains high and the public debt/GDP ratio grows in a turbulent economic environment, the appetite for financial institutions to invest in Honduras seems to be limited. Strong political decisions should back up potential operations in the country, enabling the space for blending and guarantees.

Beyond the recent legislative approval of up to 0.83 B€ in loans and the authorisation to issue debt worth up to 2.07 B EUR, the Honduran economy remains vulnerable to shocks, and the international scenario extends the competition for concessional financing.

The positive aspects refer to the relative resilience of the agro-export sector, the volume of remittances and the current liquidity and solvency of the private banking sector. However, the uncertainty restricts private investment decisions.

With regards to the sovereign lending-EIB dedicated window, EIB currently keeps a loan in sustainable roads (with LAIF blending) and the board approved one loan for solar plants since 2015 but it was not signed. EIB expressed interest in supporting up to two initiatives in transport and renewable energy. Blending operations might accompany these potential actions.

From the Member States' financial arms, only KfW maintains sovereign loans (related to youth sector and employment), and a strategic regional partnerships with CABI for different programmes such as Green MSMEs or Agribusiness. KfW also promotes the Ecobusiness Fund for Africa and LA (where EU also contributes as junior partner and with LAIF blending). AECID (FONPRODE-ICO) used to work through multilateral financial institutions. In partnership with CABI they gather efforts for the Spanish Debt Conversion Programme or managed regional microfinance fund in the Opast. AECID with IDB are preparing (included in Team Europe COVID-19 response) a Comprehensive Rural Development and Productivity Programme with a loan of 31.2 M EUR. AFD has shown interest in sustainable cities and transportation sector in the region, and they contributed with loans to private sector in clean energy since 2016.

These targeted sectors and subsectors match with Honduras MIP priority areas and they might be accompanied by EU blending or guarantees according to the maturity of new operations. Further dialogue is required with EU and Member States financial institutions with presence in the country to establish future reimbursable instruments in Honduras but beyond these actors, CABI and IDB are used to acting as intermediaries of European funders, so there is a space to explore a subsidiary role. We are collecting at the Delegation the relevant information from CABI and IDB regarding actions in hard and soft pipeline with impact in Honduras. There is not an ongoing guarantees scheme in Honduras or the region where we can bet by adding estimated provisions.

Subject to confirmation during the implementation phase, it is expected that an indicative amount of up to 28% of the resources of this MIP may be used to provision EFSD+ guarantees and to finance bilateral and regional blending operations to which the country will be eligible. From this indicative amount about one third would be dedicated to EFSD+ provisioning, representing 13 million euros for 2021-2024 under the priority areas 1: *Sustainable Management of Natural Resources and Climate Change*, and 2: *Employment, Decent Work and Growth*.

Sustainable finance represents a real potential in the region and could help accelerate financial flows towards green, inclusive and resilient transitions.

In a nutshell, we foresee potential space for blending interventions, supporting EIB sovereign loans, specific blending windows for Honduras to implement possible regional reimbursable funding lines and blending and innovative guarantees in support of regional credit lines for private sector. In addition, other regular instruments (grants) might be used to enlarge funding capacities and diminish credit risks for the financial operators out of the commercial banks, oriented to our targeted vulnerable beneficiaries and the financial inclusion.

## **2.6 Sub-regional and multi-country dimension**

The process of developing and strengthening our partnership is a policy-driven approach. In this sense, the EU engagement in the country cannot lose sight of the importance of the implementation of the EU-Central America Association Agreement, which remains a meaningful overarching instrument in our political, cooperation and trade partnership with each country in Central America. Pending its full ratification, this applies also to the existing PDCA for political and cooperation matters.

Furthermore, cooperation in the framework of the sub-regional context will be considered to address shared challenges and challenges of a cross border nature, focusing on the processes with the greatest potential to deliver on the SDGs through a multi-country approach that allows for a greater impact and success back at each country level. This is pertinent for instance in areas such as economic integration and recovery, inclusive development, climate change and security.

## **3 Support measures**

### **3.3 Measures in favour of civil society**

Ensuring an enabling environment for civil society is a cross-cutting theme for all identified priority areas. In order to reinforce the role of Honduran CSOs in the country's political, economic and social development process, a specific financial provision for support to civil society is foreseen, focusing on three main areas:

- a) Support the implementation of CSO led projects financed through the bilateral cooperation and thematic lines, particularly concerning coordination, monitoring, communication and systematization of results.
- b) Support the implementation of the Country Roadmap of EU engagement with Civil Society for the period beyond 2020.
- c) Creation of a CSO Helpdesk that can support organizations via technical assistance to improve their capacities in areas such as coalition building, networking, strategic communication, thematic analysis, digitalization, amongst others.

### **3.4 Cooperation facility**

The Cooperation Facility (CF) 2021-2027 is foreseen as a consolidation and expansion of the actions implemented through MADIGEP (Support Measures for Institutional Development and Policy Management installed for the MIP 2014-2020). The cooperation facility will be demand-orientated, meaning that the Cooperation Facility will be guided by the priorities of the MIP and respond to specific,

stakeholders<sup>23</sup> needs. The cooperation facility aims to provide a strong common TA structure for all sectors of intervention independently of the modality. Main sub-areas covered should be:

- a) Facilitate a well-structured and strategic capacity building process and public values chain, providing long-term and short-term technical assistance, specific studies, and activities of dissemination, peer-to-peer training, communication and visibility.
- b) Support structured policy dialogues at operational, technical and policy level through events, conferences, and studies, exchange platforms to support sector dialogues leading to policy reforms and engagement with governments and other stakeholders.
- c) Facilitate Joint Programming / Team Europe coordination at country level.
- d) Support the Government in developing and improving gender sensitive strategic plans and budgets; and facilitate the implementation of the GAP III Country Level Implementation Plan.
- e) Financing communication, including strategic communication and fight against disinformation and visibility actions on EU cooperation, as well as public diplomacy specific interventions to promote EU policies as well as its multilateral agenda in the partner country.
- f) Support the preparation, implementation and evaluation of the Union's cooperation, including via technical assistance.

A single decision for support measures at two services contracts (one for Support Measure to CSO, one for Cooperation Facility) should ensure the complementarity and creation of structured dialogue between geographic and thematic domains. Special attention will be paid to two aspects: gender mainstreaming and articulation between bilateral programmes that include contracts with civil society and/or local actors, and thematic projects through the CSO/LA and EIDHR budget lines.

#### ➤ Public Diplomacy

Considering today's contested information environment (marked by disinformation) and the importance of building coalitions with citizens and non-state actors to advance EU policy priorities, developing trusted channels of engagement through Public Diplomacy has become an essential element of our foreign policy. Dedicated long term Public Diplomacy initiatives which facilitate engagement with target audiences and partners (beyond the life cycle of specific cooperation projects) are key to build trust, enhance the understanding of the EU, support the implementation of our policy priorities and, ultimately, facilitate future cooperation across policy areas (incl. sectoral diplomacies such as economic diplomacy, climate diplomacy, cultural diplomacy, science diplomacy). In light of the above, and building on the experience of the Partnership Instrument and the other good practices outlined in the "Methodological Note on Public Diplomacy and Communication" attached to the Programming Guidelines, we wish to ensure that similar dedicated Public Diplomacy initiatives will be available in Honduras. These initiatives, that will be further detailed in the next steps of the programming, should allow EU cooperation in Honduras to develop long term, strategic and coherent approaches to foster, engage and mobilise networks of key target audiences and potential partners such as youth, academics, influencers (e.g. media, think tanks, business community), civil society and cultural actors.

Building on current good practices, Public Diplomacy initiatives could also reinforce coherence and complementarity with the visibility budget of political and cooperation section at the EU Delegation and with the 'Team Europe' approach. Furthermore public diplomacy initiatives could be organised across EU services, EU institutions and with Member States.

## **4 Financial overview**

Although the duration of this MIP is seven years, the indicative allocations for Honduras and for each of the priority areas and support measures laid down in the table below are provided for the 2021-2024 period only. The indicative allocations for 2025-2027, as well as the possible modification of other substantial elements of this MIP, will be subject to a decision by the EU. This decision should be

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<sup>23</sup> Means: Government, EU, MS

preceded by a review of the implementation of this MIP, which should include a dialogue with the authorities and other stakeholders of Honduras.

The mid-term review of this and other multiannual indicative programmes is planned for 2024. Without prejudice to the mid-term review, an ad-hoc review is foreseen in year 2023 when the new Joint Programming Document which is expected to be reviewed.

<b>Priority Area</b>	<b>Amounts (M€)</b>	<b>% of Total</b>
<b><i>Priority area 1: sustainable Management of Natural Resources and Climate Change</i></b>	<b>57.6</b>	<b>45.0 %</b>
<b><i>Priority area 2: Employment, Decent Work and Growth</i></b>	<b>32.9</b>	<b>25.7 %</b>
<b><i>Priority area 3: Rule of Law and Democratic Governance</i></b>	<b>26.5</b>	<b>20.7 %</b>
<b>Support measures</b>	<b>11.0</b>	<b>8.6 %</b>
<b><i>TOTAL for initial period</i></b>	<b>128.00</b>	<b>100%</b>

#### **Attachments**

1. Intervention framework
2. Donor matrix showing the current indicative allocations per sector

## **Attachment 1: Priority Area intervention framework**

The results, indicators and means of verification specified in this annex may need to be amended to take into account changes that occur during the programming period.

<b>Priority Area 1: Sustainable Management of Natural Resources and Climate Change</b>				
<b>Specific objective 1: Land Use, Land-Use Change and Forestry (LULUCF) emissions reduced and carbon absorbed compared to Business as Usual (BAU)</b>				
<b><u>Expected results</u></b>	<b><u>Indicators</u></b>	<b><u>Baseline (year)</u></b>	<b><u>Target in 2027</u></b>	<b><u>Means of verification</u></b>
a. Macro: Contribution to the restoration of one million three hundred thousand hectares of forest	a.1 Greenhouse Gas (GHG) emissions avoided (tonnes CO <sub>2</sub> eq) with EU support.	21 MtCO <sub>2</sub> eq emission <i>Source: Anuario Estadístico Forestal 2020</i>	At least 2,4 MtCO <sub>2</sub> eq emission reduction over 7 years (at least 0,34 MtCO <sub>2</sub> eq emission reduction per year over 7 years)	Government of Honduras  (Communication under UNCCC)  Institute of Forestry
b. Micro: Improved value chain governance in forest and agriculture	b.1 Number of VPA FLEGT pilot projects carried out to detect viability and gaps of Timber Legality Assurance System	1 pilot project to date <i>Source: Anuario Estadístico Forestal 2020</i>	At least 4 pilot projects implemented over 7 years	Institute of Forestry
	b.2 Forest hectares recovered from traditional agricultural	Zero	Approx. 21,000 ha/year of deforestation	Institute of Forestry

	<p>practices due to the introduction of sustainable food production</p> <p>b.3 Areas of agricultural and pastoral ecosystems where sustainable management practices have been introduced with EU support (ha).</p> <p>b.4 Marine areas under (a) protection, (b) sustainable management with EU support (ha)</p>	<p>Approx. 235,000 ha of agricultural, pastoral, forest are already under sustainable practices</p> <p>Sources:</p> <ul style="list-style-type: none"> <li>• <a href="#">Fundación Hondureña de Investigación Agrícola</a></li> <li>• <a href="#">Instituto hondureño del café</a></li> <li>• <a href="#">Federación Nacional de Agricultores y Ganaderos</a></li> <li>• <a href="#">CATIE</a></li> </ul> <p>Zero</p>	<p>(147,000 ha over 7 years)</p> <p>Approx. 100,000 hectares under sustainable practices supported by the EU</p> <p>Approx. 500 hectares under protection, and sustainable management supported by the EU</p>	<p>Universidad Nacional Agrícola</p> <p>CATIE (Centro Agronómico Tropical de Investigación y Enseñanza)</p> <p>Instituto Hondureño del Café</p> <p>Secretaria de Agricultura</p> <p>Instituto Forestal y Áreas Protegidas</p>
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<b>Specific objective 2: Transport sector emissions reduced compared to Business as Usual (BAU)</b>				
<b><u>Expected results</u></b>	<b><u>Indicators</u></b>	<b><u>Baseline (year)</u></b>	<b><u>Target in 2027</u></b>	<b><u>Means of verification</u></b>
a. Macro: Contribution to the reduction of sixteen percent of Greenhouse gases	a.1 Greenhouse Gas (GHG) emissions avoided (tonnes CO <sub>2</sub> eq) with EU support.	Zero	At least 2,0 MtCO <sub>2</sub> eq emission reduction over 7 years (at least 0,34 MtCO <sub>2</sub> eq emission reduction per year over 7 years)	Government of Honduras (Communication under UNCCC)  Ministry of Energy
b. Micro: conventional transport switched to sustainable mobility	b.1 Number of investment proposals submitted to financial institutions	5 initiatives exist for promotion and development of electro-mobility in the public transport  <i>Source: Ministry of Energy (5 project reports)</i>	At least 15 investment proposals submitted over 7 years	Honduras Transport Institute  Ministry of Energy
	b.2 Number of beneficiaries with access to financial services with EU support: a) firms b) Individuals	Zero	Approx. 4,000 individuals in the sustainable transports will be supported by the EU	Honduras Transport Institute  Ministry of Energy



<b>Priority Area 2: Employment, Decent Work and Growth</b>				
<b>Specific objective 1: Support the Honduran labour force employability from a lifelong learning approach in coherence with the country's productive development needs.</b>				
<u>Expected results</u>	<u>Indicators</u>	<u>Baseline (year)</u>	<u>Target in 2027</u>	<u>Means of verification</u>
a. Improved and strengthened management of technical and vocational education and training (TVET) institutions and their training centres.	<p>a.1 Number of employers and worker representatives integrated in the National Professional Training System management bodies.</p> <p>a.2 Number of people who have benefited from institution or workplace based VET/skills development interventions supported by the EU: (a) all VET/skills development, (b) only VET/skills development for digitalisation.</p>	<p>To be defined by the 4<sup>th</sup> quarter of 2022.<sup>24</sup></p> <p>0</p>	To be defined during the 4th quarter of 2022.	<p>National Professional Training System management bodies committee meeting reports or minutes.</p> <p>National Professional Training Institute (INFOP) annual operations report.</p>

<sup>24</sup> EURO EMPLEO is setting the conditions for these results to be achieved since it is contributing to the drafting and adoption of a Technical Education and Training Policy. This policy is currently under validation by the main sector stakeholders such as the Government, the workers and the private sector represented in the Economic and Social Council (CES). Since the country will be undergoing institutional changes as a result of a new government, this Delegation considers that it will be until mid-2022 that there will be a favourable political environment to adopt the Technical Education and Training Policy. Therefore, the baseline and targets for the indicators identified under this result are consistent with EURO EMPLEO expected implementation period. The baselines and targets will be available by the end of 2022 and will be communicated to INTPA through an official note from the HoD.

b. Extended coverage and improved relevance of TVET offer. <sup>25</sup>	b.1 Number of workers certified under flexible learning modalities with EU support	To be defined by the 4th quarter of 2022. <sup>26</sup>	To be defined by the 4th quarter of 2022	
<b>Specific objective 2: Foster an enabling environment for the creation and development of micro and small enterprises through innovative credit access facilities and information technologies</b>				
<b><u>Expected results</u></b>	<b><u>Indicators</u></b>	<b><u>Baseline (2020)</u></b>	<b><u>Target in 2027</u></b>	<b><u>Means of verification</u></b>
a. Increased access of micro and small enterprises (MSEs) to financial guarantee programmes.	a.1 Number of financial guarantee programmes designed and operating.  a.2 Amount of funds leveraged through financial guarantees, including EU guarantees.	8  HNL7,787,942,891.00  31,635	13(indicatively) <sup>27</sup>  L9,939,607,921.59  An accumulated + 5% annually <sup>28</sup>	Ministry of Finance budget settlement reports.  National Entrepreneurship and Small Businesses (SENPRENDE)

<sup>25</sup> Relevance assessment should include skills demand, the labour force expectations and the productive development needs.

<sup>26</sup> EURO EMPLEO is setting the conditions for these results to be achieved since it is contributing to the drafting and adoption of a Technical Education and Training Policy. This policy is currently under validation by the main sector stakeholders such as the Government, the workers and the private sector represented in the Economic and Social Council (CES). Since the country will be undergoing institutional changes as a result of a new government, this Delegation considers that it will be until mid-2022 that there will be a favourable political environment to adopt the Technical Education and Training Policy. Therefore, the baseline and targets for the indicators identified under this result are consistent with EURO EMPLEO expected implementation period. The baselines and targets will be available by the end of 2022 and will be communicated to INTPA through an official note from the HoD.

<sup>27</sup> Amount of guarantee funds (N) for the next five-year period greater than (>) 8, increasing one per year in different economic sectors.

<sup>28</sup> The target is set to achieve a positive growth variation of 5% annually.

	a.3 Number of entrepreneurs benefitting from financial guarantee programmes.		94,464 An accumulated + 20% annually	annual operations report.
b. Improved access of micro and small enterprises to technological innovations based on local productive development and innovation plans.	<p>b.1 Number of programs that promote MSEs innovation and information technologies in prioritized economic sectors and value chains, supported by EU.</p> <p>b.2 Variation in expenditure on innovation and development destined to MSEs as a percentage of the Non Financial Public Sector Budget.</p>	1  0,04% of the GDP <sup>29</sup>	18 <sup>30</sup>  0.30% of the GDP <sup>31</sup>	<p>National Entrepreneurship and Small Businesses (SENPRENDE) annual operations report.</p> <p>- Ministry of Finance budget settlement reports.</p>
c. Improved national institutions and producers capacities to develop sustainable enterprises.	c.1 Number of business initiatives aimed at preserving and restoring the environment.	0	15 <sup>32</sup>	

<sup>29</sup> Amount of government investment in innovation since 2004.

<sup>30</sup> The proposed target aims to increase the number of innovation programs, at least one per sub sector of the economy or production chain. In the case of Honduras, those prioritized subsectors are indicatively government, manufacturing, services, hotels & tourism, coffee and cacao.

<sup>31</sup> The proposed target aims to set the basis for the country to gradually increase the percentage invested in innovation until it reaches 0.82%, which is the average percentage for Latin America.

<sup>32</sup> Indicatively, an average of 3 business initiatives per year.

	c.2 Number of public institutions supported by the EU that promote business initiative programs aimed at preserving and restoring the environment.	0	5 <sup>33</sup>	
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<sup>33</sup> The proposed target aims to increase indicatively to 5, the number of institutions dedicated to SME promotion that implement environmental conservation and restoration programs.

<b>Priority Area 3: Rule of law and democratic governance</b>				
<b>Specific objective 1: Support national efforts to guarantee the universal application of the law and protection of human rights, particularly focusing on the fight against corruption.</b>				
<b><u>Expected results</u></b>	<b><u>Indicators</u></b>	<b><u>Baseline (year)</u></b>	<b><u>Target in 2027</u></b>	<b><u>Means of verification</u></b>
a. Increased access to an effective and transparent justice system by all citizens.	a.1 Level of citizen confidence (disaggregated by sex) in the functioning of security and justice institutions.	28.2 % (2019 <sup>34</sup> )  (not disaggregated by sex)	40 %  (disaggregated by sex)	Public perception surveys, national victimisation surveys IUDPAS-UNAH <sup>36</sup>  World Justice Project, Rule of Law Subfactor
	a.2 Equal treatment and absence of discrimination Index	0.46 (2020 <sup>35</sup> )	0.50	
b. Independent audit institutions and other oversight bodies have the capacities to exercise their mandate.	b.1 Equal treatment and absence of discrimination Index (WJP Rule of Law Sub-factor)	0.46 score (2020)	0.50	sWJP Rule of Law Index Annual Report
		66 % (2020 <sup>37</sup> )	80%	

<sup>34</sup> Encuesta de Percepción ciudadana sobre inseguridad y victimización, Honduras 2019- IUDPAS-UNAH.2020.

<sup>35</sup> World Justice Project. [Rule of Law Index. 2020.](#)

<sup>36</sup> Through Support Measures 2021-2027, the EU envisages to support UDPAS/UNAH to disaggregate next surveys by sex

<sup>37</sup> Consejo de Derechos Humanos. Grupo de Trabajo sobre el Examen Periódico Universal. [Informe nacional presentado con arreglo al párrafo 5 del anexo de la resolución 16/21 del Consejo de Derechos Humanos.](#)

	b.2 Percentage of recommendations implemented arising from the Universal Periodic Review.			United Nations Universal Periodic Review
c. The Honduran State puts in place a comprehensive policy and monitoring mechanisms to effectively counter corruption, in line with international standards.	c.1 Corruption Control Index' from the World Bank's world governance indicators (percentile rank among all countries)	24 (2020)	34 (2027)	World governance indicators
<b>Specific objective 2: Contribute to strengthening of the democratic system and increasing citizen participation with a specific focus on vulnerable groups, especially women</b>				
<b><u>Expected results</u></b>	<b><u>Indicators</u></b>	<b><u>Baseline (year)</u></b>	<b><u>Target in 2027</u></b>	<b><u>Means of verification</u></b>
a. Improved democratic participation for vulnerable groups, including access to citizenship registration and electoral participation	a.1 'Voice and Accountability Index' of the World Bank's World Governance Indicators	- 0,55 (2019) (Min. -2.5)	0 (max: 2,5)	World Governance Indicators.
b. Improved capacity of electoral bodies and national authorities to conduct elections in an independent and transparent manner.	a.2 'Voice and Accountability Index' of the World Bank's World Governance Indicators (percentile rank among all countries).	34 (2020)	48	World Governance Indicators.
c. Public policies will have integrated a gender perspective and will be designed, implemented and	a.3 Percentage of Strategic Institutional Plans of Central	4.8% (5 over 104)	30% (29 over 104)	Government of Honduras

monitored with increased civil society involvement.	Government Institutions that includes gender perspective			
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**Attachment 2: Donors Matrix** - source: OECD Query Wizard for International Development Statistic<sup>38</sup>

Million US Dollars

	2015	2016	2017	2018	2019
<b>Donor(s)</b>					
Official Donors, Total	600.03	479.96	532.46	764.66	566.34
DAC Countries, Total	217.29	221.20	239.11	319.68	273.77
Multilateral Agencies, Total	381.99	253.41	292.27	443.11	291.51
Belgium	1.27	1.57	1.62	1.67	1.21
Canada	20.97	22.46	17.70	23.12	16.84
France	3.70	3.77	1.66	37.93	1.90
Germany	17.99	23.61	16.27	17.78	18.47
Japan	14.40	12.75	9.48	16.42	24.24
Netherlands	..	0.15	0.06	0.28	0.15
Spain	7.92	13.39	21.84	24.59	18.54
Sweden	1.75	2.06	3.15	2.32	3.43
Switzerland	22.00	17.07	16.46	18.33	22.26
United Kingdom	0.28	0.24	0.61	0.51	0.45
United States	113.56	107.57	120.46	161.78	126.43
EU Institutions	46.79	47.78	67.99	93.72	67.19
Regional Development Banks, Total	220.35	142.12	175.86	317.40	168.24
Inter-American Development Bank, Total	220.35	142.12	175.86	317.40	168.24

<sup>38</sup> <https://stats.oecd.org/qwids/>

United Nations, Total	6.30	11.39	11.22	10.56	13.72
World Bank, Total	84.52	24.43	23.88	8.60	20.37
Other Multilateral, Total	24.03	27.70	13.32	12.82	21.99