

November 10, 2011

## Comments from Spain on the Investment Plan of Honduras

Dear SREP sub-committee members,

Thanks for the last week discussions in Washington.

Our consideration of the Investment Plan of Honduras is positive and we understand that the projects previewed can have an important impact on the development of renewable energies in Honduras, while they can also help to improve the quality of life for its citizens. We would anyway like to raise a couple of important aspects that we expect will be carefully beard in mind when developing the three components included in the Plan.

Thank you. Best regards,

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### COMMENTS ON THE INVESTMENT PLAN (HONDURAS)

#### Adequacy of the IP to the needs of Honduras

The proposed document reflects the difficult situation of the electricity sector in Honduras, and also the main areas where progress is needed in order to be able to deal with this situation, so in that sense, the Investment Plan is considered to fit the needs of Honduras at the moment.

#### Appropriateness of the planned activities to achieve the objectives

##### ***Component 1 - Strengthening the RE Policy and Regulatory Framework (FOMPIER)***

As for the three pillars that comprise the IP, this first one to strengthen institutional and regulatory framework is definitely considered a priority. The lack of public investment in the sector responds among other things, to a lack of government planning in the energy field. As stated in the document, privatization has not been completed and the current situation causes conflict of interest.

**Therefore, before carrying out other actions in the sector, it would be necessary, as the document points out, to strengthen the Energy Commission as regulator entity, and to generate a tariff system favoring renewable energy.**

**Viewed then the first component of the IP as a priority, the results obtained in this component would reveal the strong political will of the Government in this area.**

Therefore, it would be advisable, from our point of view, to subordinate the actions of the second component (structured finance and technical assistance to specific projects) to some indicators that show that progress has been made in this first component.

### ***Component 2 - Grid-Connected RE Development Support (ADERC)***

For what we have seen in the IP, it has not been considered in the plan the high level of losses in electricity in the area of **electricity distribution** in Honduras, which is around 25%. There seems to be consensus that **it does not seem to make sense in the short term to further increase the generation in the country as long as the distribution network problem is not solved.**

In this sense, both to create a **portfolio of renewable energy projects**, and the **proposed extension of the distribution network** to access new renewable generation projects should be complemented with a renewal of the current network that would maximize the possibility of using the new energy that will be generated.

## **Conclusion**

The consideration of the Investment Plan is positive; the planned activities are directed towards three key aspects of the sector: planning and regulation, implementation, and rural electrification. We would anyway like to have some assurance that both aspects raised will be taken into account:

- If it could be considered the **subordination of some actions or components** to the attainment of certain indicators in other components. Especially if it has been considered subordinate implementation actions (component 2) to achieved results in component 1.
- If it has been taken into account, when establishing the actions or projects, that their impact is going to be conditioned by the current situation of the **distribution network** and the high level of the network losses. **This issue has already been highlighted during the sub-committee meeting. It served the purpose, on the one hand, to get confirmation from the representatives of the Government that this is indeed the situation and, on the other hand, to be informed that they are taking steps to redress it. To the extent that the situation of the distribution network affects the effectiveness of the projects to be financed under Component 2, it is advisable to receive reports on the status, or preferably improvements, of the distribution network when those projects would be circulated for to approval.**