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Second Party Opinion

Honduras' Framework For Green, Social, And Sustainable Thematic Bonds

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Primary contact

Bryan Popoola
Washington, D.C.
+1-202-615-5962
bryan.popoola
@spglobal.com

Location: Honduras

Sector: Sovereign

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Sustainability Bond Guidelines ICMA, 2021

See [Alignment Assessment](#) for more detail.

Strengths

Honduras' social project categories aim to address the country's most material social challenges. These include high poverty rates, limited economic opportunities, and minimal access to basic services and financing. The issuer has signaled that it will allocate the majority of proceeds to social projects.

The framework aligns well with Honduras' Nationally Determined Contributions (NDCs) in the Paris Agreement and sustainable development goals. The Honduran government will allocate funds primarily to projects that reduce poverty and promote climate action.

All eligible projects undergo an environmental and social risk assessment. This includes categorizing each project by environmental risk level and ensuring that projects do not have adverse effects on minority groups such as indigenous populations.

Weaknesses

No weaknesses to report.

Areas to watch

The framework's broad scope and numerous project categories create some uncertainty about the specific future projects that will be eligible. Some project categories, including sustainable agriculture, have broadly defined criteria and lack specific requirements or quantitative thresholds to determine eligibility.

The framework includes a wide range of social projects, which may have challenges around effective implementation. To mitigate this risk, Honduras collaborates with international organizations such as the U.N. to develop best practices.

Prevalent illegal logging may pose challenges to the country's efforts around forestry management and conservation. To combat these practices, the country's updated NDCs aim to conserve and restore 1.3 million hectares of forested land by 2030.

Eligible Green Projects Assessment Summary

Eligible projects under issuer's green finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Low-carbon transport

 Dark green

Subsidies or incentives to promote the use of public transport


Development of transport systems with zero direct emissions, including electric buses

Integration of electric modes of transport with charging stations (National Electric Mobility Strategy for Honduras)

Creation of bikeway infrastructure and bike parking

Retirement of highly polluting vehicles

Energy efficiency

 Medium green

Investments in energy efficiency in public buildings that result in energy savings, including (but not limited to) renovation, thermal insulation, and/or improvements in air conditioning systems

Investments in training programs that contribute to increasing energy efficiency (Energy Efficiency Education Program)

Subsidies and soft loans that improve energy efficiency in homes and/or private businesses, such as implementing solar thermal and solar PV systems and improving insulation

Installation of energy efficient appliances and lighting systems, including replacing street lighting with new bulbs and efficient lighting systems, such as LED technology

Access to renewable energy


 Dark green

Design, construction, operation, and maintenance of renewable energy generation systems, including energy storage and the acquisition of renewable energy

Promotion of public policies, regulatory instruments, and research aimed at achieving an effective energy transition

Specialized training initiatives in vocational training centers to improve technical skills in renewable energy topics

Sustainable management of natural resources, land use, and marine protected areas

 Dark green

Promotion and implementation of policies and practices that ensure the sustainable and balanced management of forest resources

Integrated management of water-related ecosystems

Programs to conserve and restore native and exotic forests

Management and care of national parks and conservation areas

Preservation and monitoring of biodiversity in protected marine ecosystems

Strengthening and optimization of the regulatory framework for forest management

Promotion of sustainable solid waste management

Resilient and efficient water and wastewater management

 Light green

Construction and improvement of public water treatment infrastructures

Protection and conservation of watersheds to ensure the quality of water resources

Implementation of information systems for sustainable water management

Development, maintenance, and expansion of public drinking water distribution systems

Investments in public sanitation projects

Adaptation to climate change

 Dark to Medium green

Disaster risk analysis, assessment, and communication


Building capacity to deal with climate risk situations

Implementation of monitoring systems to identify natural disaster risks

Corrective and prospective actions to reduce natural disaster risks

Construction of defense structures to prevent river flooding

Pollution prevention and control

 Medium green

Investments in the implementation of technological systems for waste data management

Separation and selective collection of nonhazardous waste

Procedures for properly weighing, storing, and conditioning nonhazardous wastes

Composting for organic waste

Collecting nonhazardous waste to be reused and/or recycled

Promoting the development of circular economy practices with the private sector, with an emphasis on sustainable production and pollution reduction

Sustainable agriculture

 **Light green**

Investments in silvopastoral and/or agroforestry systems

Investments in agroclimatic information and early warning systems

Soil restoration with proper forest management

Organic agricultural production

Investments in reforestation/forest regeneration

See [Analysis Of Eligible Projects](#) for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Issuer Description

Honduras is the second-largest country in Central America by land area and has a population of over 10 million. Honduras' GDP has grown at the same rate as other countries in the region, but it remains one of the poorest and most unequal countries in the Americas, with GDP per capita of \$2,389 (2020). Additionally, Honduras has the third-highest level of gender inequality in Central America, according to the Gender Inequality Index.

Honduras' economy is primarily agricultural and informal, making it vulnerable to climate change. It faces significant challenges from natural disasters, crime, political instability, and relatively weak institutional and business conditions. These issues hinder competition and economic diversification, encourage emigration, and obstruct efforts to raise incomes, reduce poverty, and address social exclusion.

Material Sustainability Factors

Access & Affordability

In most countries, unbanked and underserved population segments are still meaningful, although the access gap is most acute in emerging and developing economies. Market imperfections such as low competition, incomplete information, and lack of financial literacy often result in costly alternatives for small businesses and low-income people, so ensuring affordable access to essential services, especially for the most vulnerable populations, remains a challenge for many governments. Depending on national and local socioeconomic circumstances, governments may also prioritize issues of economic advancement, poverty, hunger, or inequality reduction, access to essential services or infrastructure, access to clean water and sanitation, or other social goals.

Other Social Risks

Governments play a crucial role in ensuring the development of society and economy. Depending on national and local socioeconomic circumstances, governments may also prioritize issues of economic advancement, poverty, hunger, or inequality reduction, access to essential services or infrastructure, access to clean water and sanitation, or other social goals. However, it is equally important for governments to consider the social impact of environmental risks on populations. Climate transition and physical climate risks can have far-reaching consequences on the well-being, livelihoods, and overall social development of individuals and communities. Environmental hazards, such as air pollution, toxic waste, or water contamination, can result in severe health effects, displacement, economic repercussions, and social tensions. It is often marginalized communities that bear the brunt of these hazards, underscoring the significance of environmental justice and the equitable distribution of resources.

Physical Climate Risks

Physical climate risks can affect many economic activities, absent adaptation. If greenhouse gas emissions increase and are unabated, this will drive more frequent and severe climate hazards. Although the physical impact of climate change and extreme weather events will continue to play out globally, the direct impact of climate hazards--including heat waves, flooding, and wildfires--are typically localized. Meanwhile, the indirect impact of such events may precipitate through different channels (such as the volume and pricing of traded goods and services), extend beyond administrative borders, and cascade through multiple sectors. Honduras is vulnerable to climate change due to its high exposure to climate-related hazards such as hurricanes, tropical storms, floods, droughts, and landslides that can devastate crops and critical infrastructure.

Climate Transition Risk

Policymakers have a key role to play in bringing about the drastic cuts in greenhouse gas emissions needed to address climate change. While the breadth of existing country signatories to the 2015 Paris Agreement provides a basis for global action, current climate pledges fall significantly short of the reductions needed to reach net zero by 2050. A lack of policies to support climate pledges exacerbates the challenge, making it likely that warming could exceed 1.5 °C compared with pre-industrial levels in the near future, based on past emissions and current trends. Indeed, current commitments are expected to result in a broadly constant level of global emissions of about 60 gigatons (Gt) of carbon dioxide-equivalent a year. As a result, warming is likely to exceed 3 °C by the end of the century.

Governments can stimulate climate action from public and private, personal, and industrial actors through regulations, incentives, and various price signals—including broad and material carbon taxes, subsidies, and penalties. Countries also have widely different contributions to past, current, and future global emissions, both on an absolute and per capita basis, with historical economic development closely linked to the use of fossil fuels and resulting emissions. Policymakers' incentives to act on climate vary widely and can change rapidly with the level of public support for action; international agreements; tangible evidence of climate change in the region; short-term economic costs of the transition; social acceptance; competitive pressures; the perceived impact a country or region can have on global emissions; and the perceived imbalance between local and global risks from climate change.

Other Environmental Risks

Governments play a key role in protecting biodiversity, and containing land, air, and water pollution. Economic development goals may exert considerable pressure on natural ecosystems, locally and at trading partners. Environmental factors are often intertwined with other factors, such as climate transition and physical climate risks.

Issuer And Context Analysis

Honduras faces significant social challenges, including high poverty rates, limited economic opportunities, and minimal access to basic services. These challenges, combined with high exposure to climate-related hazards, disproportionately affect vulnerable populations, including indigenous peoples and Afro-Hondurans. Honduras' agricultural sector, which employs 30% of the population, is highly vulnerable to climate change. Small-scale, rural subsistence farmers face low productivity and high risks, which disproportionately affect vulnerable and poor populations. In our view, targeted long-term funding for strategic areas like small and medium-size enterprises (SMEs), climate, and agriculture can improve financial inclusion. The framework's social categories include food safety, access to quality education, access to housing, health care, job creation, and closing inequality gaps that address multiple social determinants of health and wellbeing.

Eligible projects will build resilience, reduce vulnerability, and mitigate other potential social risks. Honduras has targets to reduce firewood consumption in households by 39% by 2030, which will have a significant positive impact on the health of Hondurans. Moreover, the difference in access to electricity between urban and rural areas is substantial. Most urban households (97%) access electricity through the national grid, compared with 69% in rural areas, where 23% of households have no access to any kind of electricity. Addressing these social risks is crucial for building climate resilience and complying with the U.N.'s sustainable development goals.

The framework's eligible green project categories aim to address Honduras' material sustainability factors. Expenditures include projects in categories such as renewable energy, energy efficiency, and low-carbon transport, which aim to address climate transition risk. The framework includes projects for waste management and sustainable water and wastewater management that also address substantial non-climate environmental risks. Furthermore, funds for conservation and restoration of native and exotic forests, coastal marine resources, and sustainable agriculture are important to address biodiversity risks and key to significant economic sectors such as water, agriculture, and tourism that are highly dependent on increasingly scarce natural resources. In addition, we consider that investments in adaptation projects bolster the country's resilience against physical risks.

Due to its location, Honduras faces a broad range of intensifying weather events related to climate change, including sea level rise, floods, droughts, and hurricanes. The effects have been felt across various sectors, and the risks could have severe impacts on the country's economy, infrastructure, and population. To mitigate these risks, Honduras has developed a Climate Change Adaptation and Resilience Plan, which includes various initiatives and strategies to reduce vulnerability. One of the key initiatives is the Forest Conservation and Restoration Project, which aims to protect and restore Honduras' forests. This project involves reforestation efforts, sustainable forest management, and conservation of wildlife habitats. The project also focuses on reducing deforestation and degradation of forests, which capture large amounts of greenhouse gas emissions across the country.

Honduras has developed targets for using renewable energy and reducing greenhouse gas emissions. The energy sector accounted for 38% of the country's emissions, followed by agriculture (26%) and forestry and other land use (22%). Honduras' NDC commits to reduce absolute greenhouse gas emissions by 16% relative to a business-as-usual (BAU) scenario by 2030, excluding forestry and other land use sectors. The emissions of the 2030 BAU scenario are based on Honduras' updated submission to the U.N. Framework Convention on Climate Change (UNFCCC) GHG Inventory, as well as ad hoc models and projections. The updated NDC provides indicative targets for the sectors in the BAU scenario (9% energy, 5% agriculture, 1% industrial processes, and 1% waste). Nevertheless, in 2005-2015, Honduras' total greenhouse gas emissions increased by 30%. We think the sluggish forecast for economic growth and reliance on fossil fuels may pose risks to the country's 2030 decarbonization targets.

The country also aims to generate 100% of electricity from renewable sources by 2050.

Although Honduras' electricity supply is led by renewable energy production, significant dependence on nonrenewable energy remains. Gross electricity generation in Honduras during 2021 was composed of 60% renewable sources--mainly hydroelectric power plants (33%), solar (9%), wind (7%), biomass (4%), biofuels (4%), and geothermal (3%). Thermoelectric power plants represented 38% of generated electricity in 2021, and these plants were mostly fueled by oil (28%) and coal (8%).

Honduras faces biodiversity risks and aims to restore degraded forest landscapes by 2030.

Honduras is home to a rich variety of flora and fauna, with over 56% of its territory covered by forests. However, the country faces significant biodiversity risks due to deforestation, habitat loss, and climate change. According to the Food and Agriculture Organization of the U.N., Honduras lost 12% of its forest cover between 2010 and 2021--which exceeds the global, Latin American, and Central American averages--primarily due to illegal logging, agricultural expansion, and urbanization. The country aims to restore 1.3 million hectares of degraded forest landscapes by 2030, which will help to improve the carbon sequestration capacity of its forests and boost biodiversity.

Alignment Assessment

This section provides an analysis of the framework's alignment to the Social and Green Bond principles and the Sustainability Bond Guidelines.

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✘

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Sustainability Bond Guidelines ICMA, 2021

✓ Use of proceeds

We assess all the framework's green project categories as having a green shade and consider all social project categories to be aligned. Honduras commits to allocate the net proceeds issued under the framework exclusively to eligible green and social projects, contributing to specific Sustainable Development Goals (SDGs). Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental and social benefits of the expected use of proceeds. The government will disclose the proportion of financing versus refinancing in its allocation reporting. The look-back period is 12 months, which is commonly used by other sovereigns in the region.

✓ Process for project evaluation and selection

Honduras has a Committee for the Issuance of Thematic Bonds (CTEBT) and Committee of Consultation and Support for Thematic Bonds (CCABT), comprising representatives from the Ministry of Finance and other Secretariats of State. The CTEBT, led by the Ministry of Finance (SEFIN), is responsible for identifying eligible projects, defining exclusion criteria, and following risk management processes. The CCABT is responsible for providing support to the CTEBT and SEFIN to ensure that eligible expenditures are aligned with government priorities. The CCABT will meet at least annually to screen and approve the potential projects. All eligible projects must comply with the country's General Environment Law and are categorized by risk level. Projects with the highest risk levels must demonstrate an effective risk mitigation system that corresponds to the project's size and scale. Projects must also adhere to the government's Manual for Safeguarding the Participation of Indigenous and Afro-descendant Populations. The framework includes an exclusion list that covers topics such as weapons and munitions, alcoholic beverages, adult entertainment, tobacco, and gambling.

✓ Management of proceeds

Honduras will create subaccounts for the net proceeds within the General Treasury of the Republic, through which the net proceeds will also be tracked. SEFIN will be responsible for ensuring that the amounts allocated to eligible projects match the net bond proceeds. SEFIN will also ensure that the eligible portfolio will contain an amount larger than the net proceeds of the bond, so that if a project ceases to meet the eligibility criteria, it can be replaced by other eligible projects. SEFIN will report on unallocated proceeds, which will be managed under the Single Account System in accordance with the policies of the General Treasury of the Republic.

✓ Reporting

Honduras commits to report annually on the allocation of the net proceeds and on the financed projects' impact, until full allocation of the net proceeds and in case of material developments. Reporting will be available on the Ministry of Finance's website. Allocation reporting will include the total amount of instruments outstanding, a brief description of the projects, and the breakdown of allocation of net proceeds by eligible category. The country will also report on the actual and expected impact of the financed projects and will use ICMA's Harmonized Framework for Impact Reporting. Furthermore, the government will

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share information on the assumptions used to calculate the key indicators, adding transparency to the projects' impact. The government commits to receiving an external limited assurance on the allocation and impact reporting until full allocation, which we view positively.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "[Analytical Approach: Shades Of Green Assessments](#)," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Under its framework, the issuer will finance the project categories listed below. According to the issuer, it expects to allocate proceeds primarily to social projects during the first issuance. The mix of green versus social projects in future issuances is unknown.

Social project categories

Supporting vulnerable or low-income groups and populations and reducing inequalities

Financing programs and projects to improve social inclusion, reduce poverty and inequality, and increase access to essential services for vulnerable populations (including youth, women, children, immigrants, people with disabilities, indigenous populations). Some of the included programs are:

- Red Solidaria Program
- Conditional monetary transfers directed towards impoverished populations
- Acción Solidaria Program, which considers the following initiatives:
 - Gold bonds: social compensation for older adults
 - Hope bonds: support impoverished people with disabilities that have difficulties working and generating their own income
 - Pink bonds: monetary compensation for women fighting cancer
 - Other applicable bonds

Financing actions and measures directed to closing gender gaps by promoting empowerment and increased access to socioeconomic opportunities for women.

Analytical considerations

- According to the World Bank, Honduras is one of the poorest and most unequal countries in the region, which reflects the target population selected in this category. The percent of the population below the poverty line was 52.4% in 2022.
- The programs and projects in this category are designed to help vulnerable groups with specific needs and will not be available to the general public. The issuer clearly defines the target population in the framework documentation. In addition, many target populations are defined by law. Populations are assessed on a range of criteria including socioeconomic characteristics, demographics, and location. From this data, the government calculates an index to determine the poverty level for individual households across the country.
- Red Solidaria is a program that helps connect Hondurans in poverty or extreme poverty with government services to promote human development. The program's goal is to eradicate poverty by focusing on covering basic needs in the areas of health, education, infrastructure, and productive economic projects. The program has safeguards that guarantee that conditional monetary transfers are used for their designed purpose--beneficiaries of these programs must comply with certain actions such as health check-ins, school attendance requirements, and participation in training programs, among others, to receive the transfers. The amounts of the transfers are set by regulation and determined by taking into account the needs of the beneficiary, the objective of the intervention, and the intervention plan of the relevant government bodies.
- The Accion Solidaria Program aims to promote social inclusion for the country's most vulnerable groups, contributing to personal, familial, and social development. For example, it promotes gender justice, including equality of rights and

opportunities for women and girls. While Accion Solidaria is not specifically focused on gender, it is a central consideration for many of the program's initiatives.

Job creation and support for MSMEs

Financing of projects designed to generate employment, promote entrepreneurship, and facilitate workforce inclusion for vulnerable populations, including entrepreneurship in rural zones.

Some of the programs include:

- Monetary transfers to generate income opportunities and/or local and human empowerment;
- Support for companies, including micro, small, and medium enterprises (MSMEs), affected by unforeseen events or situations
- Financial support through loans or other financing alternatives for MSMEs that face economic challenges;
- Support for employment generation; and
- Development of infrastructure and plans to improve access to financial services to individuals and MSMEs.

Analytical considerations

- Financing MSMEs supports both entrepreneurship and job generation, especially given the country's high level of informality. According to the World Bank, only 58% of Honduras' working-age population was employed as of 2023. The German Investment Corp. estimates that seven out of 10 workers in Honduras are employed by an SME, and that they generate around 60% of the country's GDP.
- The framework specifies that MSMEs will be classified in accordance with Government Decree No. 135-2008. This decree lays out the definition of MSMEs, which is based on the number of paid employees.
- The Honduran government is implementing the National Education and Financial Inclusion Program to offer education and scaling opportunities for MSMEs' financial and business capacity, in addition to access to financing for vulnerable families or those in poverty or extreme poverty. Investments in training are directed toward women, entrepreneurs, MSMEs, and small agriculture, livestock, and industrial producers.
- The Honduran government publishes an annual report that outlines the objectives and results of many of the initiatives under this category, including metrics around providing technical assistance for MSME development, increasing financial market access, and providing direct financial assistance.

Access to basic housing

Investments in projects to finance the acquisition, repair, expansion, and renovation of social housing.

Cash transfers for the purchase of new housing and/or structural improvement of housing for people living in extreme poverty (component of the Solidarity Network Programme).

Analytical considerations

- Eligible projects under this category aim to improve housing conditions and reduce inequalities in Honduras. According to the National Institute of Statistics, 62% of the population does not have adequate housing as of 2020. Similarly, based on the Permanent Household Survey conducted in 2019, 59% of Honduran households live in poverty, and the rate is even higher in rural areas, at 68%, where half the population lives. We believe these projects will promote access to housing and improvement of living conditions for Hondurans.

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- Eligible projects incorporate two main existing social programs under the country's conditional cash transfers (CCTs), or TMC per its Spanish name (transferencias monetarias condicionadas). Cash transfers will be for homes that are missing key portions, such as floors, roofing, or walls, as outlined in the Ministerial Agreement (or Acuerdo Ministerial) 036-2022. The two projects expected to be financed are Improvement to Housing CCT (TMC Mejora a Vivienda) and New Housing CCT (TMC Vivienda Nueva). In both projects, the amount delivered will be used exclusively to cover the costs related to the purchase of materials and others associated with the improvement or construction of the home.
- The eligible projects are described under the country's Acuerdo Ministerial No. 036-2022, which provides more transparency into the eligibility considerations and social benefits in line with local regulation of the CCTs. The framework specifies that the target population is in accordance with CCT's definition of extreme poverty. The CCTs specify that the targeted communities are those within the area of attention of the Solidarity Network Program (PRS) and are selected according to their concentration of households in poverty and extreme poverty. The PRS is an autonomous entity responsible for designing, executing, supervising, and managing social projects as designated by the decision-making bodies of the government of Honduras.
- The PRS team, supported by field staff, will conduct studies to assess housing needs and determine the appropriate type of CCT for each case. If a home has deficiencies that cannot be fixed through specific or individual improvements, the New Housing CCT will be provided to build a new home to replace the existing one. This CCT also applies to families living in extreme poverty without a home, ensuring they are provided with new housing. Applicable conditions are the participation of at least one member of the household in the program. A particular disbursement plan will be created according to the budget and schedule for the implementation of improvements.
- We view positively the country's efforts to provide access to basic housing. We think these programs can help reduce inequalities. Nevertheless, it is unclear whether the expected housing will consider physical climate risks exposure, which can translate into perceived social risks given the country's high exposure to climate-related hazards.

Access to education

Financing of investment programs and projects focused on strengthening access to and excellence in public education, with special emphasis on those living in extreme poverty at all levels of education.

Some of the eligible programs are:

- Cash transfers targeting school-age people, especially in rural areas;
- Construction, expansion, and improvements in public schools (e.g., the School Infrastructure Improvement Programme);
- Access to quality education;
- Educational scholarship program (solidarity scholarships) for basic, middle, and higher education;
- Free tuition program for pre-basic, basic, and secondary education; and
- Acquisition of technological equipment for educational purposes.

Analytical considerations

- Projects under this category aim to provide quality education as a means to reduce poverty, in line with the Government Plan to Refund Honduras 2022-2026. The projects will be offered to those living in extreme poverty at all levels of education. In accordance with the criteria established in Article 16 of Ministerial Agreement 036-2022, the Honduran government has determined that eligible regions and towns will be those in which at least 45% of households in rural areas and 30% of households in urban areas live under extreme poverty conditions. According to the Honduran National Statistics Institute, 64% of the Honduran population lived below the national poverty line in 2023, with women and children the most vulnerable groups. We view these education projects as a material action plan to reduce education inequalities and foster development. Education enables upward macroeconomic mobility and is key to eradicating poverty.
- Similar to other social project categories, access to education category includes CCTs. The purpose of these CCTs is to provide the economic means to cover the expenses involved in enrolling and attending educational centers, studying, and passing the grades corresponding to the levels of Basic and Secondary Education. Applicable conditions are thoroughly explained under the country's Acuerdo Ministerial No. 036-2022. Some of the conditions are attendance of at least 80% of the established

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school days. We consider the applicable conditions to be suitable to fulfill the project's objectives to promote education for school-age people living in extreme poverty.

- This project category is not limited to CCTs. Other projects include public school infrastructure improvement through Fondo Hondureño de Inversión Social (FHIS) and through the Ministry of Education. This is particularly relevant given that according to data from the Ministry of Education, only 68.2% of schools had drinking water and 75% of schools had some type of infrastructure problem, as of 2022. The allocation of funds from the Free Tuition Program is aimed at government educational centers and will be based on the number of students enrolled, active and officially registered. Scholarships are made through the Decree No. 09-2023 and Ministry of Education. Projects for the construction, expansion, and improvement of facilities for different educational levels promote the government's efforts to offer quality education across the country.
- The latest multidimensional poverty index (MPI) by the Human Development of the U.N. Development Programme in 2019 reveals that education is the second-biggest contributor to the overall MPI of Honduras. The intensity of deprivations in Honduras is 42.7%, meaning that, on average, people living in multidimensional poverty experience 42.7% of the total possible deprivations. This score reflects the severity of poverty across various categories, including education, health, and living standards. Meanwhile, Honduras' MPI is 0.051, indicating that 5.1% of the population is multidimensionally poor when adjusted by the intensity of their deprivations. This index combines the proportion of the population that is poor and the severity of their poverty to provide a comprehensive measure of poverty. Honduras' MPI is higher than the Latin American and Caribbean average, indicating that Hondurans experience a more severe multidimensional poverty than the region. The comparison was done with population living below \$2.15 per day at 2017 Purchasing Power Parity rates.
- We consider funds allocated to increase access to education and improve illiteracy highly material for the issuer. Lack of access to education limits individuals' ability to participate in higher-skilled jobs, which hinders economic growth. Honduras had a national average of education coverage rate of 91.9% for children between six and 11 years as of 2023, according to National Institute of Statistics (INE). However, for those aged 15-17, the coverage is only 28.7%. This means that almost 2 in 3 young people between these ages are not attending school. When comparing urban areas and rural areas, the data shows that young people in rural areas have less attendance at school. This is particularly material as illiteracy is a major problem in the country, where 13.7% of people over age 15 do not know how to read or write.
- Factors contributing to school dropouts are lack of access to education, violence, disinterest, and lack of economic support. Furthermore, limitations in access to and use of technological devices, and in internet connectivity, further deepen the gaps of inequality and inequity in access to quality education. We consider funds allocated toward acquisition of technological equipment for educational purposes will promote the country's overall education objectives.

Food safety

Financing of initiatives that guarantee a healthy and nutritious food service.

Some of the programs include:

- Cash transfers to mitigate the underfeeding gap (component of the Solidarity Network Programme);
- School Feeding Program; and
- Financing programs to combat malnutrition and infant mortality.

Analytical considerations

- The eligible projects are described under the country's Acuerdo Ministerial No. 036-2022, which provides more transparency into the eligibility considerations and social benefits in line with local regulation of the CCTs. The framework specifies that the target population is in accordance with CCT's definition of extreme poverty.
- According to the Integrated Food Security Phase Classification (IPC) Acute Food Insecurity Analysis Report, around 1.8 million people in Honduras experienced high levels of acute food insecurity classified as IPC Phase 3 (Crisis) or above between December 2023 and February 2024. Key drivers of food insecurity include high unemployment (57.3% of the workforce is unemployed or underemployed), high food prices, and low incomes (50% of households reported reduced earning capacity).
- Eligible programs, such as CCTs from the Solidarity Network Programme, contribute to food supply safety to vulnerable populations. Through this program, Honduras aims to ensure a minimum household income and address food insecurity by

providing regular deposits for the purchase of essential food items. These funds can only be accessed via a debit card at designated stores, ensuring that they are spent on essential items, as defined by the INE. If the community lacks the necessary infrastructure to use a debit card, payments will be made through alternative methods. We expect the issuer to comply with the necessary safeguards in place to ensure that allocation will benefit the target population.

- The National School Feeding Program consists of providing a plate of food every day of the school year to children enrolled in the country's public sector. The objective is to provide healthy meals for children and young people to reduce child malnutrition and school dropout at the national level. In 2023, the program reached approximately 1,317,027 children, extending its impact to remote areas. The program is conducted in partnership with the World Food Program (WFP), to which the funds are transferred. The WFP manages the purchase of school meals, sourcing inputs from local producers and distributing them to educational directorates. As a result, children attending classes this year have received daily school meals, including fortified rice, beans, flour, and oil. According to the Food and Agriculture Organization, children who suffer malnutrition experience lower cognitive capacities that may affect their school performance. We believe these programs help mitigate health risks and promote better educational outcomes.

Access to health services

Financing of projects or initiatives related to the construction, operation, and/or improvement of public hospitals or public health services, paying special attention to vulnerable populations.

Some of the eligible programs include:

- Finance hospital infrastructure: building, equipping, and operating hospitals, clinics, and health care facilities for the provision of public health services;
- Purchase and supply of medical supplies and medicines;
- Encourage efforts to achieve vaccination coverage for all;
- Support access to public services and facilities to improve sexual, maternal, and female health; and
- Provide cash transfers for maternity and/or early childhood health, with emphasis on rural areas (component of the Solidarity Network Programme).

Analytical considerations

- Eligible projects are in line with the government's strategic priority to provide universal access to health services in line with the Sustainable Development Goals. The projects aim to improve access to quality health care to vulnerable populations. According to the World Health Organization, the number of people expected to be covered by essential health services and not experiencing financial hardship was 5.6% in 2022, which is low relative to other regions. Meanwhile, the healthy life expectancy has decreased to 60 in recent years, which is approximately three years less than the average in the Americas. Moreover, high rates of teenage and unwanted pregnancies in Honduras are driven by limited access to sexual and reproductive health services, a shortage of contraception methods, and inadequate education for adolescents. In March 2022, 23% of pregnancies were among teenagers, who face increased risks of pregnancy-related complications, sexually transmitted infections, and other health issues. We consider the selected projects are adequate to the local characteristics and will benefit the population.
- Projects include construction of hospitals under the Ministry of Health, medical and medicine supply, and CCTs under the Ministerial Agreement 036-2022 on the Solidarity Network Program. The CCTs aim to promote comprehensive health, reduce maternal and infant morbidity and mortality rates, promote responsible sexual and reproductive health, reduce sexually transmitted diseases and preventable diseases, and improve the nutritional levels of the population. The Solidarity Network Program and the Ministry of Health will coordinate to document and verify health-related requirements, establishing the necessary procedures and tools for accurate record-keeping and information exchange. The cash transfers require beneficiaries to meet specific conditions to access the benefits, including attending the medical appointments.
- Projects that aim to strengthen the infrastructure through constructing, reconstructing, and equipping hospitals in the country are aligned with the Public Investment Plan. It is an instrument of the government that enables the implementation of policies, plans, strategies, programs, and projects aimed at improving Honduras' quality of life.

Access to services and basic infrastructure

Financing of spending destined to facilitate access to basic infrastructure.

Some of the eligible programs include:

- Investments in the improvement of drinking water systems and aqueducts, both new and existing, with the aim of increasing access, quality, reliability, capacity, and efficiency of the service;
- Investments in developing and strengthening new and existing wastewater treatment and sewerage systems to improve access, quality, and efficiency;
- Investments for household connections for access to drinking water and sanitation;
- Investments to extend household coverage to the electricity grid; and
- Investments in road infrastructure, focused on urban and rural areas with higher poverty rates.

Analytical considerations

- The framework defines the target population as people who are vulnerable and lack access to essential services and basic infrastructure, living in either urban or rural areas with a high poverty rate. We expect the criteria for target population would ensure project benefits reaching the desired population and communities.
- We positively view the investments' focus on enhancing drinking water systems, wastewater treatment, and sewerage systems to improve access, quality, and efficiency. Additionally, household connections are prioritized for better access to drinking water and sanitation.
- Projects related to the development of transmission lines will help stabilize and provide access to electricity in rural and vulnerable communities. Access to energy is key for communities' economic and social development. Electricity has become a fundamental tool for better health, educational improvements, and economic opportunities.
- Road infrastructure in developing countries is key to economic development because it can improve access to services, enable more efficient transport of goods, and link producers to markets, thereby lifting populations out of poverty. The road project mentioned above aims to connect rural areas to urban areas, facilitate transportation, and provide increased economic opportunities for those living outside of Honduras' urban centers. The objective of many of these road infrastructure projects is to increase rural interconnectedness to promote the free movement of people across the country.

Green project categories

Low-carbon transport

Assessment

 Dark green

Description

Financing and/or refinancing of expenses related to:

- Subsidies or incentives to promote the use of public transport.
- Development of transport systems with zero direct emissions, including electric buses.
- Integration of electric modes of transport with charging stations (National Electric Mobility Strategy for Honduras).
- Creation of bikeway infrastructure and bike parking.
- Retirement of highly polluting vehicles.

Analytical considerations

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- Mitigating greenhouse gas emissions from transportation will be crucial to meet global decarbonization goals, as the transport sector accounts for 23% of global energy-related GHG emissions, according to the IPCC. Fossil fuel-powered vehicles and vessels also create air pollutants such as nitrogen oxides and sulfur oxides. Electric road transport is the key technology to decarbonize land transportation.
- Honduras' eligible projects in low-carbon transport focus on promoting the use of public transport and non-emitting personal vehicles such as bicycles, fleet electrification, and the retirement of aging vehicles. These initiatives will serve to not only decrease the emissions associated with transport across the country through electrification, but also promote the use of communal transport such as buses. Subsidies to promote the use of public transport may increase emissions created by these buses in the short term, but modal shift (i.e., shifts from private to public/shared transportation) is important to achieve decarbonization goals. For these reasons, we assign this category a shade of Dark Green.
- The Honduran government is revising its National Electric Mobility Strategy, which will align with the country's decarbonization and climate action plans. In 2022, the country's energy secretary announced its PROMOVEHR program, in collaboration with the German development agency GIZ. The program's objective is to promote the development of a national market for electric vehicles and charging infrastructure, as well as promote regional development with Costa Rica. Another key objective is the development of a legal and regulatory framework to promote the use of electric vehicles, ensuring that Honduras will have the tools necessary to promote investor and consumer confidence in electric vehicles in both the public and private sectors. We believe that the combination of market creation, regional and international cooperation, and the development of regulatory tools will further the adoption of electric vehicles in the country, supporting the Dark Green shade.
- The retirement of high-pollution vehicles refers to the progressive or definitive removal of road vehicles that emit high levels of contaminants, including greenhouse gases, nitrogen oxides, particulate matter, ozone, and sulfur oxides. The Honduran government is currently implementing a National Carbon Footprint Calculator Program that will be available in September 2024. This tool will allow the government to identify the most highly contaminating public and private vehicles and gradually remove them from circulation. Funds will be allocated toward the creation of this tool and the eventual removal of those vehicles.
- As many of these programs are still in the development stages, the framework does not currently account for value chain considerations or lifecycle emissions.

Energy efficiency

Assessment

 **Medium green**

Description

Financing and/or refinancing of expenses related to:

- Investments in energy efficiency in public buildings that result in energy savings, including renovations, thermal insulation, and/or improvements in air conditioning systems.
- Investments in training programs that contribute to increasing energy efficiency (Energy Efficiency Education Program).
- Subsidies and soft loans that improve energy efficiency in homes and/or private businesses, such as the implementation of solar thermal and solar PV systems, and improvements in insulation.
- Installation of energy efficient appliances and lighting systems, including the replacement of street lighting with new bulbs and efficient lighting systems, such as LED technology.

Analytical considerations

- Energy efficiency initiatives offer cost-effective actions to reduce the sovereign's GHG emissions, according to the IEA's last annual report on global developments in energy efficiency. The IEA 2021 report underscores the significance of the Net Zero Emissions by 2050 Scenario, projecting a 35% improvement in the global economy's energy intensity by 2030. This substantial enhancement, equivalent to an annual improvement of 4%, is driven not only by energy efficiency measures but also by complementary actions such as electrification and behavioral change.

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- The framework states that investments in energy efficiency for public buildings will only be eligible if they achieve improvements of at least 20%, which we believe aligns with regional standards. The framework clarifies that investments to extend the useful life of technologies or assets that support the fossil fuel industry are not the objective of this category and thus will not be eligible. In addition, heating is not common in Honduras, like it is in places with colder climates, which limits greenhouse gas emissions lock-in risk, in our view. For these reasons, we assign the category a Medium green shade.
- In April 2024, the National Congress of Honduras approved the Law for Rational and Efficient Energy Use. The objective of the law is to promote energy efficiency across the country by raising financing awareness of energy efficiency at all levels of education, labeling energy efficient devices and systems that are produced domestically or imported, and developing additional regulations to encourage further energy efficiency improvements. This law will help both the public and private sectors incorporate energy efficiency into their decision-making processes, which is especially important given that approximately 40% of the electricity consumed in Honduras comes from fossil fuel sources.
- Given the nature of the projects and their small scale, the potential for physical climate risk for this category should be less material.

Access to renewable energy

Assessment

 Dark green

Description


Financing and/or refinancing of expenses related to:

- Design, construction, operation, and maintenance of electricity generation systems from renewable sources such as photovoltaic, concentrated solar, wind, hydroelectric (below 25 MW of installed capacity), oceanic, and geothermal, including those with energy storage, together with the acquisition of renewable energy.
- Promotion of public policies, regulatory instruments, and research aimed at achieving an effective energy transition.
- Specialized training initiatives in vocational training centers to improve technical skills in renewable energy topics.

Analytical considerations

- Renewable energy sources, such as solar photovoltaic (PV), concentrated solar power (CSP), wind, and hydroelectric, are key to limiting global warming to well-below 2°C. Still, these projects may cause land use change and adversely affect local biodiversity, and they are exposed to physical risk.
- Solar and wind projects have lower environmental risk than other renewable energy projects, and we thus assign these projects a shade of Dark Green because of their high decarbonization potential. Hydroelectric power plants also provide clean energy but can have adverse environmental effects. To mitigate this, the issuer is limiting the scope to plants with installed capacity below 25 MW, leading to a Dark Green shade.
- The country's investments in solar PV, CSP, and wind support the Paris Agreement modelled pathways. These imply that almost all electricity is supplied from zero- or low-carbon sources by 2050. Renewable energies like hydroelectric and geothermal energy are vital to a low-carbon future, but their infrastructures, which typically have a large footprint, can affect local biodiversity if not managed properly. Honduras has developed a National System for Environmental Impact Evaluation that categorizes public- and private-sector energy projects based on their risk level. All projects that do not have a very low risk level will be subject to a government-level environmental licensing program as well as an environmental impact assessment, though it is not clear in the framework what risks the assessment will consider.
- Energy storage plays a key role in net-zero energy systems by providing flexibility and adaptability to balance the intermittency of most renewable energy sources. The mining of metals, which batteries need a lot of, like lithium, cobalt, and copper, can harm the environment--disrupting natural habitat and causing pollution--and be water and energy intensive. The framework does not provide additional information about mining and supply chain concerns, constraining our opinion of the environmental benefit.
- Investments related to the promotion of public policies will be aimed at evaluating renewable energy sources and energy efficiency, with the goal of promoting the access to renewable energy and developing sustainable energy markets.

Sustainable management of natural resources, land use, and marine protected areas

| Assessment | Description |
|---|---|
|  Dark green | Financing and/or refinancing of expenses related to: <ul style="list-style-type: none"> • Promoting and implementing policies and practices that ensure the sustainable and balanced management of forest resources. • Integrating management of water-related ecosystems. • Programs to conserve and restore native and exotic forests. • Management and care of national parks and conservation areas. • Preservation and monitoring of biodiversity in protected marine ecosystems. • Strengthening and optimizing the regulatory framework and forest management. • Promotion of sustainable solid waste management. |

Analytical considerations

- Forests can contribute to carbon sequestration, support biodiversity habitats, and provide ecosystem services such as water regulation and soil stabilization that improve climate resilience. Implementing sustainable forestry management practices, avoiding harmful land use change, and managing physical climate risks--including wildfires and pests--are key to achieving these benefits. The eligible projects in this category do not include the expansion of commercial land, which we view positively.
- The eligible projects under this category will contribute to the sustainable development and preservation of Honduras' natural resources and habitats. We thus assign this project category a shade of Dark Green.
- Illegal logging is a serious concern for Honduras, and the country has lost a significant portion of its forested areas due to these deforestation practices. The Honduran National Institute of Forest, Protected Area, and Wildlife Conservation and Development (ICF) has implemented a national strategy against illegal deforestation and transport of forest products. As part of this strategy, in 2022 the government carried out 187 technical audits of forestry management plans as well as 67 monitoring operations to ensure adherence to the country's forestry management laws. These audits and monitoring programs led to the closure of one operation in La Mosquitia, an area in the eastern part of the country. Forestry preservation and restoration programs such as these are also aligned with the country's updated NDC to conserve and restore 1.3 million hectares of forested land by 2030. The country restored 57,596 hectares of forest land in 2022 as part of this strategy. While dedicating funds toward forestry preservation and restoration is in line with a low-carbon and climate-resilient future, the prevalent illegal deforestation practices may present implementation risks for the Honduran government.
- The ICF also has targets and metrics for the protection of catchment areas, native and exotic forests, protected areas, and wildlife, in line with the government's 2022-2026 strategic plan. In its annual disclosures, the ICF reports its conservation and management goals for each period, the baseline, and the projected and expected completion percentage for each year.
- To strengthen and optimize the forestry management regulatory framework, the country intends to invest in updating laws and policies; strengthening institutional capacity; and adopting advanced monitoring systems, environmental education, and reforestation and ecosystem restoration programs.
- Honduras' Program for the Reforestation and Protection of the Padre Andrés Tamayo River Basin includes initiatives to improve the management of solid waste across the country's municipalities. The program's goal is to work with the municipalities--through monitoring and follow-up--to ensure compliance of recollection, transport, and final deposit of solid waste, in order to recover contaminated forest spaces and promote best practices for solid waste management.

Resilient and efficient water and wastewater management

| Assessment | Description |
|------------|-------------|
|------------|-------------|

Light green

Financing and/or refinancing of expenses related to:

- Construction and improvement of public water treatment infrastructures.
- Protection and conservation of watersheds to ensure the quality of water resources.
- Implementation of information systems for sustainable water management.
- Development, maintenance, and expansion of public drinking water distribution systems.
- Investments in public sanitation projects.

Analytical considerations

- Efficient water and wastewater activities, both in terms of energy and water, are generally positive for both climate resilience and pollution prevention, and investments in these sectors are needed to meet the 2050 goals. Honduras is also vulnerable to climate change impacts such as floods, which may affect the availability and quality of water in the future. Eligible expenditures under the issuer’s framework include general financing toward the construction of water supply and wastewater infrastructure. The issuer has not included specific thresholds related to energy consumption for the different types of projects within this category, so we assign the category a shade of Light green.
- The issuer has confirmed that no water-related infrastructure expenditure will exclusively support emission-intensive sectors, which strengthens its net environmental benefit. In fact, the projects will be directed only to the residential sector.
- Honduras’ National Potable Water and Sanitation Plan 2022-2030 aims to ensure universal access to public water services and improve their quality, with a focus on sustainability, human rights, gender equality, social inclusion, and climate resiliency. The country’s National Council of Potable Water and Sanitation creates an updated plan every eight years, with priorities based on the achievements and results of the prior period’s plan. The most recent plan has four strategic pillars: consolidating the institutional structure of the potable water and sanitation sector, investing in the secure and resilient management of current potable water and sanitation services, investing to expand the service area, and investing to reconstruct water and sanitation infrastructure damaged by natural disasters and other events.
- A big portion of Honduras’ GDP is linked to agriculture, which relies on water availability. Furthermore, hydropower accounts for approximately 35% of electricity generation. In addition, water used in agriculture is often wasted due to inefficient irrigation systems. Reduced river flows and groundwater recharge, saltwater intrusion, water shortages, increased runoff erosion, and reduced water quality are all projected to have a significant impacts on many water users. While we view positively the proposed improvements and the favorable environmental impacts, we lack clarity regarding the utilization of fossil fuel-based equipment and the handling of waste and chemicals in water treatment processes.

Adaptation to climate change

Assessment

Dark to Medium green

Description

Green spending financing and refinancing include:

- Disaster risk analysis, assessment, and communication.
- Building capacity to deal with climate risk situations.
- Implementation of monitoring systems to identify natural disaster risks.
- Corrective and prospective actions to reduce disaster risks.
- Construction of defense structures to prevent river flooding.

Analytical considerations

- Climate scientists have been clear that some level of climate change will take place, even in the most optimistic scenarios, making it crucial to plan for and mitigate the potential risks to reduce the financial and environmental impact of such events. Implementing adaptation solutions can also reduce resources and emissions linked to rebuilding damaged assets.

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- Honduras is highly exposed to physical climate change risks. Some of the expected changes are water-related hazards. Planning for and mitigating such risks are key to reducing the financial, social, and environmental impact of these events. We assess the project category as Dark to Medium green, reflecting the need for increased resilience and adaptation measures amid the increasing frequency of physical climate risks. Nevertheless, under this category the issuer also includes construction projects that have additional environmental risks from a life cycle analysis and value chain perspective, such as flood defenses.
- Some of the projects under this category are focused on investments linked to technology solutions and research. We consider these investments to be material for countries vulnerable to climate risks that have yet to adopt sufficient preparation measures. We believe that these technological readiness measures mitigate the long-term impact economic damage that can be due to climate change, and thus assign these projects a Dark green shade.
- The projects selected under this category aim to reduce disaster risk affecting the population and improve vulnerability nationwide. The issuer has selected projects related to constructing adaptation measures, such as flood defenses. Although these are necessary to protect the population from climate hazards, adaptation and resilience solutions--where construction is required--can lead to substantial emissions during the construction phase (e.g., use of fossil fuels-powered equipment) and heavy materials use (cement in particular). Honduras does not have any plans to manage these embodied emissions, weighing on the benefits of such projects. We thus assign these projects a Medium green shade.
- The issuer confirmed that expenditures that prolong the life of fossil fuel-based infrastructure (such as roads) and operations are not eligible and that investments in this category would only finance adaptive measures, not infrastructure itself. The framework's exclusion list prohibits financing high-emission assets or sectors. Additionally, fossil fuel equipment or systems are excluded from projects qualifying for climate adaptation.
- It is important to identify and manage the potential risk of maladaptation--that is, shifting vulnerability to other parties of climate-related events--and eligible projects' impacts on local biodiversity. Honduras does this through environmental impact assessments.
- The framework describes that projects will be located in areas that are highly vulnerable to climate change. These areas have been identified by the Secretariat for Risk Management and National Contingencies, which carries out flood risk assessments and inspections of vulnerable and threat areas at the national level. Additionally, corrective and prospective actions to reduce disaster risk projects will be aligned to risks identified under the National Adaptation Plan and must directly contribute to the resilience of the populations most vulnerable to the effects of climate change. These projects are intended to prevent, mitigate, and adapt to the impacts of tropical storms, hurricanes, and droughts.

Pollution prevention and control

Assessment

 **Medium green**

Description

Green spending financing and refinancing include:

- Investments in the implementation of technological systems for waste data management.
- Separation and selective collection of nonhazardous waste.
- Procedures for properly weighing, storing, and conditioning nonhazardous waste.
- Composting for organic waste.
- Collecting nonhazardous waste to be reused and/or recycled.
- Promoting the development of circular economy practices with the private sector, with an emphasis on sustainable production and pollution reduction.

Analytical considerations

- Waste management is an important pollution prevention measure that can avoid harm to human health and local ecosystems from waste streams. Recycling, if done properly, increases the useful life of materials, thereby reducing carbon and other air pollutants' emissions, energy, and natural-resource use. Waste prevention and reuse solutions are the preferred solutions under the waste management hierarchy because they have the lowest negative environmental impact, followed by recycling, energy

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recovery, and finally disposal. Waste collection and sorting projects can increase recycling and reuse rates, thus diverting waste from less environmentally beneficially disposal solutions.

- Based on the issuer's expected allocation, the most significant activities to be financed within this project category include the financing of waste collection, sorting, and recycling facilities. The issuer states that collected nonhazardous waste is sorted at source and intended to be prepared for reuse or recycling. Furthermore, we understand that fossil-fuel powered vehicles for waste collection are not eligible to receive financing, and neither are active landfills, waste incineration, or waste-to-energy projects. While the projects are focused on increased circularity, the collection and recycling processes still mostly rely on fossil fuels to operate. Therefore, we consider the financed projects to be associated with climate risks that do not fully correspond to a low-carbon, climate resilient future. We assess these projects and this category as Medium green.
- The final disposal of waste has traditionally taken place in the open air, without meeting sanitary or environmental standards, which generates high methane emissions. Therefore, this category helps to mitigate pollution and GHG emissions.
- Moreover, some projects under this category focus on value chain by promoting a circular economy across sectors. While many of the recycling practices for single-use plastics are implemented at the company level, we view positively the entity's promotion of circular economy, which could propel sustainable market practices.

Sustainable agriculture

Assessment

 Light green

Description

Green spending financing and refinancing include:

- Investments in silvopastoral and/or agroforestry systems mainly for small producers. These investments will not finance increases in land and/or livestock.
- Investments in agroclimatic information and early warning systems.
- Soil restoration with proper forest management.
- Organic agricultural production.
- Investments in reforestation/forest regeneration.

Analytical considerations







- Silvopastoral and agroforestry practices in crop and livestock farming that enhance soil health and, consequently, soil water absorption and carbon levels, or that support above- or below-ground biodiversity, are crucial for a low-carbon and climate resilient future. In addition, afforestation, reforestation, and soil restoration with proper forest management are important to managing greenhouse gas emissions and adapting to climate change. Given the high environmental risk baseline for agriculture and forestry, we view the integration of many sustainability measures as strongly contributing to a low-carbon future. However, the additional environmental risks linked to livestock projects limit the benefit of the financing for this category, leading to a Light green shade.
- Eligible projects relate to Honduras' NDC goal of Sustainable Rural Development. Projects aim to ensure sustainable food production systems by applying resilient agricultural practices that contribute to ecosystems and mitigate climate change. Positively, selected projects promote environmental conservation and efficient management of natural resources. Projects will include safeguards to reduce deforestation, soil erosion, and pollution into water and soil. Moreover, proceeds will be allocated to supporting small producers. The investments will not finance increases in planted crop area and/or livestock herds, which we view as positive given their significant emissions. Finally, the project is considered to have very low risk of deforestation because there is no expected land increase and safeguards are included in the sustainable agriculture practices. Additionally, we view positively that eligible projects include reforestation.
- Crop and livestock farming--one of the main activities of the Honduran rural economy (12% of GDP as of 2022)--are a significant GHG emitter. The sector accounted for 31% of the country's total inventory in 2020, according to the latest GHG national inventory developed by UNFCCC. Honduras aims to allocate proceeds to silvopastoral and agroforestry systems that follow the Honduras' Nationally Appropriate Mitigation Actions (NAMA) for cattle farming. The NAMA, developed in collaboration with the Directorate of Agricultural Science and Technology, the Ministry of Agriculture and Livestock of Honduras, and the U.N. Environment Programme, aims to reduce emissions from livestock production and mitigate deforestation risks. The plan includes implementing silvopastoral systems, introducing biodigesters, utilizing organic fertilizers, and producing nutritional

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blocks. These measures target reducing GHG emissions from livestock farming while also increasing carbon sinks. The financing of these projects is seen as a positive step toward decarbonizing the cattle farming sector in Honduras. By adopting these measures, the country aims to achieve environmental benefits, including reduced GHG emissions from livestock activities and increased carbon sequestration in biomass and soil.

- Furthermore, while all project categories align with sustainable practices, the issuer does not specify any certifications for organic agriculture. We understand that organic agriculture projects funded by issuances made under the framework include investments in non-chemically treated seeds. We view as positively the country's ability to replace chemical seed treatment, thereby reducing the negative impact on biodiversity and pollution of soil and water. However, because non-chemically treated seeds can also be used for conventional cultivation, their use does not fully address environmental risks linked to conventional crop-protection products, including pesticides.
- Additionally, proceeds will be allocated to tools and processes designed to support agricultural decision-making and risk management by providing timely and relevant information about climate and weather conditions. We consider this highly material to the issuer and projects under this framework. Extreme weather events, such as heat waves, droughts, and floods, pose significant climate physical risks to the agriculture industry, affecting water availability and crop yields, livestock welfare, and overall productivity. Longer droughts may reduce output and increase costs related to irrigation and animal feed. Additionally, long-term risks of pests and invasive species may increase with changing weather conditions over longer periods. Social safeguards are material given human rights violations in agriculture, including child labor, low wages, and unsafe working conditions, which can undermine the well-being of workers.

S&P Global Ratings' Shades of Green

| Assessments | | | | | |
|--|---|---|--|---|--|
| Dark green | Medium green | Light green | Yellow | Orange | Red |
| Description | | | | | |
| Activities that correspond to the long-term vision of an LCCR future. | Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions. | Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions. | Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures. | Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets. | Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets. |
| Example projects | | | | | |
|  Solar power plants |  Energy efficient buildings |  Hybrid road vehicles |  Health care services |  Conventional steel production |  New oil exploration |



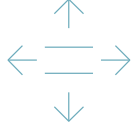



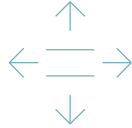
Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

| Use of proceeds | SDGs | |
|--|--|--|
| Supporting vulnerable or low-income groups and population, and reducing inequalities |  <p data-bbox="470 745 625 787">1. No poverty</p> |  <p data-bbox="657 745 876 787">5. Gender equality</p> |
| | |  <p data-bbox="909 745 1055 808">10. Reduced inequalities</p> |
| Job creation and support for MSMEs |  <p data-bbox="462 1039 641 1123">8. Decent work and economic growth</p> | |
| Access to basic housing |  <p data-bbox="462 1354 641 1438">11. Sustainable cities and communities</p> | |
| Access to education |  <p data-bbox="487 1669 609 1732">4. Quality education</p> |  <p data-bbox="690 1669 836 1732">10. Reduced inequalities</p> |

Food safety



2. Zero hunger

Access to health services

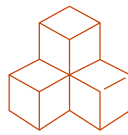


3. Good health and well-being

Access to services and basic infrastructure



6. Clean water and sanitation



9. Industry, innovation and infrastructure



11. Sustainable cities and communities

Low-carbon transport



3. Good health and well-being

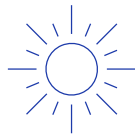


11. Sustainable cities and communities



13. Climate action

Energy efficiency



7. Affordable and clean energy

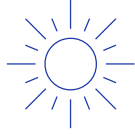


11. Sustainable cities and communities

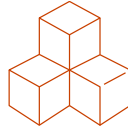


13. Climate action

Access to renewable energy



7. Affordable and clean energy



9. Industry, innovation and infrastructure



13. Climate action

Sustainable management of natural resources, land use, and marine protected areas



3. Good health and well-being



13. Climate action



14. Life below water

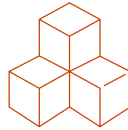


15. Life on land

Resilient and efficient water and wastewater management



6. Clean water and sanitation



9. Industry, innovation and infrastructure

Adaptation to climate change



11. Sustainable cities and communities



13. Climate action

Pollution prevention and control



6. Clean water and sanitation



11. Sustainable cities and communities



12. Responsible consumption and production

Sustainable agriculture



2. Zero hunger



6. Clean water and sanitation



12. Responsible consumption and production



13. Climate action



15. Life on land

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- [Analytical Approach: Second Party Opinions: Use of Proceeds](#), July 27, 2023
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Analytical Contacts

Primary contact

Bryan Popoola
Washington, D.C.
+1-202-615-5962
bryan.popoola
@spglobal.com

Secondary contacts

Rafael Janequine
São Paulo
+55-11-99878-7121
rafael.janequine
@spglobal.com

Azul Ornelas

Mexico City
+52-55-1037-5283
azul.ornelas
@spglobal.com

Research contributor

Sachin Powani
Mumbai

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