

Concept Note

Sustainable Nationally Appropriate Mitigation Actions (NAMA) Coffee of Honduras

Honduras | Central American Bank for Economic Integration (CABEI)

2 July 2019



**GREEN
CLIMATE
FUND**

Concept Note

Project/Programme Title: **Sustainable Nationally Appropriate Mitigation Actions (NAMA) Coffee of Honduras**

Country(ies): **Honduras**

National Designated Authority(ies) (NDA): **Secretary of Energy, Natural Resources, Environment and Mining (MiAmbiente)**

Accredited Entity(ies) (AE): **Central American Bank for Economic Integration (CABEI)**

Date of first submission/ version number: 2019-07-01 / V.1

Date of current submission/ version number: 2019-07-01 / V.1



Notes

- The maximum number of pages should **not exceed 12 pages**, excluding annexes. Proposals exceeding the prescribed length will not be assessed within the indicative service standard time of 30 days.
- As per the Information Disclosure Policy, the concept note, and additional documents provided to the Secretariat can be disclosed unless marked by the Accredited Entity(ies) (or NDAs) as confidential.
- The relevant National Designated Authority(ies) will be informed by the Secretariat of the concept note upon receipt.
- NDA can also submit the concept note directly with or without an identified accredited entity at this stage. In this case, they can leave blank the section related to the accredited entity. The Secretariat will inform the accredited entity(ies) nominated by the NDA, if any.
- Accredited Entities and/or NDAs are encouraged to submit a Concept Note before making a request for project preparation support from the Project Preparation Facility (PPF).
- Further information on GCF concept note preparation can be found on GCF website [Funding Projects Fine Print](#).

List of abbreviations

CABEI:	Central American Bank for Economic Integration
GHG:	Greenhouse gas
ICF:	Forest Conservation Institute
IHCAFE:	Honduran Coffee Institute
IFIs:	Intermediary Financial Institutions
MiAmbiente:	Secretary of Energy, Natural Resources, Environment and Mining
NDC:	Nationally Determined Contributions
SAG:	Secretary of Agriculture and Livestock
RCF:	Resilient Coffee Fund of Honduras

A. Project/Programme Summary (max. 1 page)			
A.1. Project or programme	<input type="checkbox"/> Project <input checked="" type="checkbox"/> Programme	A.2. Public or private sector <input checked="" type="checkbox"/>	<input type="checkbox"/> Public sector <input type="checkbox"/> Private sector
A.3. Is the CN submitted in Response to an RFP?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> If yes, specify the RFP: _____	A.4. Confidentiality¹	<input type="checkbox"/> Confidential <input checked="" type="checkbox"/> Not confidential
A.5. Indicate the result areas for the project/programme	<p>Mitigation: Reduced emissions from:</p> <input type="checkbox"/> Energy access and power generation <input type="checkbox"/> Low emission transport <input type="checkbox"/> Buildings, cities and industries and appliances <input checked="" type="checkbox"/> Forestry and land use <p>Adaptation: Increased resilience of:</p> <input checked="" type="checkbox"/> Most vulnerable people and communities <input type="checkbox"/> Health and well-being, and food and water security <input type="checkbox"/> Infrastructure and built environment <input type="checkbox"/> Ecosystem and ecosystem services		
A.6. Estimated mitigation impact (tCO₂e over lifespan)	320 GgCO ₂ e compared to BAU during the first 5 years (2019-2023). Annual average reductions of 64 GgCO ₂ e over the next 10 years	A.7. Estimated adaptation impact (number of direct beneficiaries and % of population)	4,000 small low-income producers and 80 coffee mills
A.8. Indicative total project cost (GCF + co-finance)	Amount: USD 39,623,400.0 million	A.9. Indicative GCF funding requested	Amount: USD 22,831,400.0 million
A.10. Mark the type of financial instrument requested for the GCF funding	<input checked="" type="checkbox"/> Grant <input type="checkbox"/> Reimbursable grant <input type="checkbox"/> Guarantees <input type="checkbox"/> Equity <input type="checkbox"/> Subordinated loan <input type="checkbox"/> Senior Loan <input type="checkbox"/> Other: specify _____		
A.11. Estimated duration of project/ programme:	4 years	A.12. Estimated project/ Programme lifespan	25 years
A.13. Is funding from the Project Preparation Facility requested?²	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Other support received <input checked="" type="checkbox"/> If so, by who: CABEL	A.14. ESS category³	<input type="checkbox"/> A or I-1 <input type="checkbox"/> B or I-2 <input checked="" type="checkbox"/> C or I-3
A.15. Is the CN aligned with your accreditation standard?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	A.16. Has the CN been shared with the NDA?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
A.17. AMA signed (if submitted by AE)	Yes <input type="checkbox"/> No <input type="checkbox"/> If no, specify the status of AMA negotiations and expected date of signing:	A.18. Is the CN included in the Entity Work Programme?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
A.19. Project/Programme rationale, objectives and approach of programme/project (max 100 words)	<p>The Programme aims to: i) trigger a disruptive long-term transformation in the way coffee is produced in Honduras by posing sustainability, carbon-neutrality and resilience to climate change as the main guiding principles of the entire productive chain; ii) increase economic sustainability and resilience of small low-income coffee producers by diversifying income sources and facilitating access to finance and differentiated markets. The implementation approach includes the introduction of agroforestry systems, more efficient fertilizer utilization practices, waste treatment and solar technologies, capacity building and communication activities. The executing entities will be IHCAFE and CABEL.</p>		

¹Concept notes (or sections of) not marked as confidential may be published in accordance with the Information Disclosure Policy ([Decision B.12/35](#)) and the Review of the Initial Proposal Approval Process ([Decision B.17/18](#)).

²See [here](#) for access to project preparation support request template and guidelines

³ Refer to the Fund's environmental and social safeguards ([Decision B.07/02](#))

B. Project/Programme Information (max. 8 pages)

B.1. Context and baseline (max. 2 pages)

Climate vulnerabilities, GHG emissions profile and mitigation and adaptation needs that the prospective intervention is envisaged to address.

Coffee production plays a key role in the Honduran economy, representing 30% of gross agricultural product and 5% of the Gross Domestic Product (GDP). Coffee plantations cover around 338,000 hectares at the country level, 3% of national territory and more than 8% of the total cultivated area.

The coffee sector is made up of 120,000 families. 87% of production is in hands of small coffee producers who harvest less than 300 quintals. 95% of producers are considered small and medium. Although there is a minimum price-fixing policy in the country aimed at smoothing fluctuations in international market prices, income of most small producers is often insufficient for survival. Poverty and illiteracy levels are high. Producers in general are unaware of the functioning of the market as well as of the financial aspects of coffee production and they often do not have access to Internet, which negatively affects their efficiency levels.

GHG emissions from coffee production represent 2.4% of national emissions, 11.3% of agriculture emissions and 10.7% of waste emissions. The main emission sources are the use of nitrogen fertilizers, the inadequate management of timber plantations in coffee farms, the mismanagement of pulp and wastewater at the processing level and the electricity consumed for coffee drying. Besides, the sector is particularly vulnerable to the adverse effects of climate change.

Most coffee farmers in Honduras currently plant some timber trees but without investing in providing adequate management to the plantations. Around 15% of producers have incorporated agroforestry systems. At the industrial level, around 10% of coffee mills already count with oxidation ponds and with regards to renewable energy generation, several cooperatives are already developing projects mainly based on the installation of solar panels and energy use of biogas and coffee husk. These efforts could be further enhanced if they were integrated within a nationally coordinated low-carbon production strategy for the whole coffee chain.

There is great potential to transform the Honduran coffee chain towards a culture of sustainable low-carbon production. However, the sector faces multiple challenges: a recent ecological tragedy caused by a fungal disease, the increase in waste generation and raw materials consumption (firewood, fuels) associated to the increase in coffee production, the lack of economic resources to enable the necessary transformations to make production more sustainable, the limited knowledge and capacity of coffee farmers and mill operators on low-carbon practices and technologies and the resistance to change of many producers.

How the project fits in with the country's national priorities

Honduras has assumed in the NDC submitted by the country to the UNFCCC in September 2015 the commitment to reduce 15% national GHG emissions with respect to the BAU scenario by 2030, with a sectoral objective of afforesting/reforesting 1 million hectares by the same year.

Honduras already counts with several environmental, climate change and sectoral policy instruments which are built on common goals and seek to exploit synergies among sectoral productive targets and mitigation and adaptation objectives. A Framework Law on Climate Change has already been passed and a Climate Change Adaptation Plan is being designed in order to respond to the international commitments as well as through other plans such as a REDD+ strategy for landscape and basins restoration.

In addition, the Programme embeds within the strategic government 'Plan for a Better Life', by which climate change policies and measures are meant to focus on their 'human face', promoting actions that improve the most vulnerable inhabitants' living conditions as well as a transversal perspective of respect for human rights and gender equity and ensuring that women, indigenous people and Afro-Honduran communities have an effective and full participation in decision-making processes.

In this context, the Programme plays a key role for achieving mitigation and adaptation goals in the coffee sector as well as in meeting the sustainable development challenges the country faces. It will contribute to the national mitigation targets submitted in the country's NDC by reducing Honduras' annual emissions by at least 0.5% on average compared to 2015 levels and accomplishing 1% of the sectoral NDC objective of afforesting/reforesting 1 million hectares by 2030.

Main barriers that need to be addressed

The main barriers that are preventing a transformation of GHG emission trends in the Honduran coffee sector and need to be addressed are the following:

- **Technical barriers:**
 - Limited knowledge of coffee farmers about Best Agricultural Practices such as the optimal density of trees in agroforestry systems and little silvicultural knowledge about timber management
 - Limited knowledge and capacity about cost-effective technologies for waste management and solar technologies for coffee drying
 - Some environmentally friendly technologies can be more expensive and less efficient in terms of performance
- **Economic and financial barriers:**
 - Lack of financial mechanisms to enable the renovation of old and low-yield coffee plantations in order to replace them with improved and more productive varieties
 - Few cost-effective technologies available to increase efficiency in coffee drying and processing
 - Difficulties for producers' accessing to credit
- **Regulatory barriers:**
 - Current regulations do not promote low-emissions coffee production
- **Cultural barriers:**
 - Resistance to change of producers, especially when changes imply additional costs they are usually unable to afford
- **Institutional barriers:**
 - The current governance framework of the coffee sector contains several dispersed actors (MiAMbiente, SAG, IHCAFE, ICF, Cooperatives, Union of Cooperatives) that need to be articulated in a single process with common objectives and comprehensive guidance
- **Ecological barriers:**
 - Increase in production opportunities may set pressure on native forests

Key characteristics and dynamics of the sector and market in which the Programme will operate

93% of the coffee produced in Honduras is exported. Four countries account for 74% of exports: Germany (26%), Belgium (24%), United States (18%) and Italy (6%).

The main actors throughout the Honduran coffee chain include producers, coffee mills, cooperatives, intermediaries, exporters and brokers. The financial situation of producers, especially the smallest ones, as well as of many cooperatives is weak, with neither capacity to invest nor access to credit. Exporters, mostly large companies, buy coffee directly from producers or either from cooperatives or intermediaries, paying different prices according to different coffee quality.

In an international context of low coffee prices, access to differentiated market segments emerges as a way out of poverty for small producers, especially given the growing demand for sustainable coffee in developed countries. Certification arises as the best strategy for differentiation. However, differentiated markets are more difficult to penetrate due to the high-quality standards required for agricultural products, demanding new skills and investments in infrastructure, knowledge, machinery and transport.

The strategic alternatives to overcome this situation lay on the modernization of the whole coffee chain, the improvement of the competitive position of small producers and their strengthening and empowerment within the chain, the improvement in quality and efficiency and the generation of knowledge and education.

B.2. Project/Programme description (max. 3 pages)

Components/outputs and activities to address the above identified barriers that will lead to the expected outcomes

Main expected outcomes

1. Transformational change in the Honduran coffee chain is triggered and scaling up is enabled
2. GHG emissions associated to coffee-production are reduced
3. Coffee producers improve resilience and standards of living

Expected components/outputs

1. Sustainable coffee production is achieved
- 2.. Access to new differentiated markets for sustainable coffee is achieved
3. Support fund is established
4. Additional public and private finance is leveraged for low-carbon investments

Envisaged subcomponents/activities

The Programme comprises a combination of technical and financial support mechanisms for coffee farmers and envisages capacity building programmes aimed at strengthening institutional and technical capacities at the government and financial levels:

1. **Design and implementation of a comprehensive Measurement, Reporting and Verification (MRV) System for the coffee sector in Honduras.** The MRV will allow to measure, report and verify the reduction of GHG emissions in the coffee sector at the production and processing levels.

The establishment of the MRV will establish the causal chain for the NAMA Coffee. This means identifying the changes (impacts) that will be generated with the activities carried out within the framework of the NAMA Coffee; It will also allow the evaluation of the probability of these impacts occurring and their magnitude.

To understand which impacts are the most relevant, both the probability and the magnitude of these must be evaluated. This requires an understanding of the other factors that influence a certain impact and how they would have developed without NAMA.

Through the MRV, the relevant impacts that are not desired can be evaluated. NAMA Coffee is intended to contribute to sustainable development, in many cases, it is expected to have positive impacts in different areas. But nevertheless, it is likely that NAMA Coffee has some negative impacts, which could be mitigated but not totally avoided, for this reason the importance of measuring and evaluating the indicators that will be defined in this NAMA Coffee for Honduras process.

2. **Capacity building for the coffee sector stakeholders** In close collaboration with multipliers such as cooperatives and extension services, technical assistance will be provided at different levels:

- a. Government level: Strengthening of institutional and technical capacities for leading a transformation towards low-carbon coffee production;
- b. Productive level: Technical support to coffee farmers and mills on technical, financial and commercial issues through workshops, trainings and extensionists' strengthening for knowledge transfer. A key activity on this level will be the support on Business plan development. The project, through the allied executing entities, especially the IHCAFE, will develop the following preparatory and enabling activities: i) Identification of the coffee farmers with the potential to participate in the project ii) Identification of the potential interventions for each plot or cultivation in the areas of energy efficiency, low carbon technologies, solid and liquid waste management, agroforestry systems, fertilizer use, production techniques, forest conservation and benefits, access to new markets for sustainable low-carbon coffee, among others. iii) Preparation of a business plan with a view to obtaining financing from the Coffee Fund.
- c. iii) Financial institutions level: Awareness raising programs and technical assistance on how to design and manage differentiated investment and financing schemes for promoting sustainable coffee production.

3. **Design and implementation of Financial Mechanisms for the Coffee Sector.** The project will design and implement two financial mechanisms to allow the coffee farmer and mills to get access to reimbursable and non-reimbursable financial resources to allow them to finance their business plans that will address the financial needs of the coffee sector actors in a complementary way.

- a. **Coffee Fund (CF) for promoting low-carbon investments in the coffee sector.** The fund will provide non-reimbursable resources to support coffee farmers in the implementation of low-carbon practices and technologies as well as sustainable and resilient practices. The fund will be managed by CABI and will provide grant awards to partially finance the coffee farmers and mills to implement their business plan.
- b. **Coffee Credit Line for promoting low-carbon investments in the coffee sector.** The credit line will provide reimbursable resources to finance the Business Plan developed by coffee farmers and coffee mills aiming to implement low-carbon practices and technologies. This credit line will be channeled by CABI through its Financial Institutions (FIs) network.

4. **'Green products' promotion strategy:** Identification of differentiated international markets for sustainable coffee and specific requirements for accessing; definition of baseline for labeling; development of a national certification and labeling scheme; analysis of needed regulations and legal registration processes; training to producers; commercial exchange; participation in international fairs.

These envisaged activities have been specifically designed to tackle and overcome the identified barriers:

Type of barrier	Envisaged activities to overcome barriers
Technical	<ul style="list-style-type: none"> • Research on low-carbon practices and technologies for the coffee sector that best suit Honduras' reality • Capacity building on technical issues for coffee producers
Economic and financial	<ul style="list-style-type: none"> • Creation of a support fund that will offer concessional loans schemes to coffee producers and processors who adopt low-carbon technologies and practices • Capacity building for coffee producers and on financial issues • Capacity building for financial entities on 'green' financial products • Definition of a 'Green products' promotion strategy to help producers access differentiated markets
Cultural	<ul style="list-style-type: none"> • Communication strategies/Capacity building
Regulatory	<ul style="list-style-type: none"> • Consultancies on institutional arrangements and regulatory framework changes needed to promote low-carbon coffee production in Honduras
Institutional	<ul style="list-style-type: none"> • The Coffee NAMA Technical Committee, already created and active, is envisaged in the Programme as the entity that will finally decide on policies, activities, funds allocation, contracting and other operative issues related to project implementation. It will be the key mechanism and dialogue space for articulating stakeholders and fostering transparent participation of representatives from every involved institution and organisation
Ecological	<ul style="list-style-type: none"> • Application of safeguards and mechanisms for reducing pressure on native forests (avoided deforestation) • The Programme envisages an active forestry-sector representatives' participation in the Coffee NAMA Technical Committee

Theory of change

The Programme design begins with the definition of a long-term vision of the country and the changes and impacts to be achieved: transform Honduras into a resilient low-carbon coffee-producing emerging country within a gender-sensitive approach.

From this starting point, long-term goals are defined: i) trigger a transformational change in the Honduran coffee sector by enforcing new regulations, re-directing and leveraging private and public funds towards a low-carbon pathway by means of an innovative financial mechanism and inducing mentality change through capacity building and communication activities; ii) support a systemic shift through strategic interventions in the regulatory and policy frameworks that have the potential to change behaviours beyond one-off investments; iii) induce a permanent long-term transformation of the coffee-producing idiosyncrasy in Honduras; iv) trigger a re-orientation of national policies and financial and regulatory instruments towards low-carbon and sustainable pathways; v) trigger an irreversible change of resource allocation and investment channelling towards resilient and sustainable productive practices and low-carbon technologies in the coffee sector; vi) promote research and capacity building; vii) increase economic sustainability of coffee producers by diversifying income sources and facilitating access to differentiated markets, reducing the gender gap of social, economic and environmental vulnerabilities which are being exacerbated by climate change.

Then, the process maps backward to identify the necessary preconditions for achieving these objectives. This includes the identification of barriers that are preventing the shift to a low-carbon producing path and the ways to overcome them.

The target groups are 4,000 small low-income producers and 80 coffee mills at the national level, who will have applied by the end of the Programme (2023) at least one low-carbon practice or technology (total: 10,000 ha).

The preliminary selection criteria for producers participating in the Program are: i) willingness and commitment to improve and implement the good production and processing practices that will be disseminated through the Program; ii) producers registered in the coffee census and experience in organizational processes and transfer and financial technology; iii) small producers (1-5 coffee Ha); iv) coffee organizations with 20% or more of women and young members (18-25 years) and v) small coffee mills (up to 200 coffee quintals processed per year).

This analysis is traduced into operational activities that will result in the expected outcomes and outputs, which progress will be measured though the definition of indicators and the identification of the inputs needed to undertake the envisaged activities.

The vision of what will have changed at the end of the Programme is the following: the target group will have been empowered and their standards of living will have been improved by means of income increase and diversification through market access to new niches. Low-carbon practices and technologies will have been introduced, more efficient resource-use technics will have been identified and tested, coffee-production GHG emissions will have been reduced, private funding for investments in low-carbon coffee producing and processing technologies will have been mobilised and

leveraged, private-public cooperation will have been enhanced and the foundations for an expansion of a deep cultural change towards sustainability to the rest of the coffee-producing regions in Honduras will have been laid.

The methodology for planning and evaluation that has been used to define the ambition of the Programme and that will be applied to promote the desired long-term changes is based on an inclusive and participatory process that has involved public and private stakeholders getting together periodically in meetings, workshops and consultation processes.

Annex A provides a log frame where all these elements are put together in a conceptual model and result map that shows the causal connections between the starting conditions that need to change in order to meet the ultimate goals and the expected final outputs and outcomes. Annex B provides a Diagram of the Theory of Change.

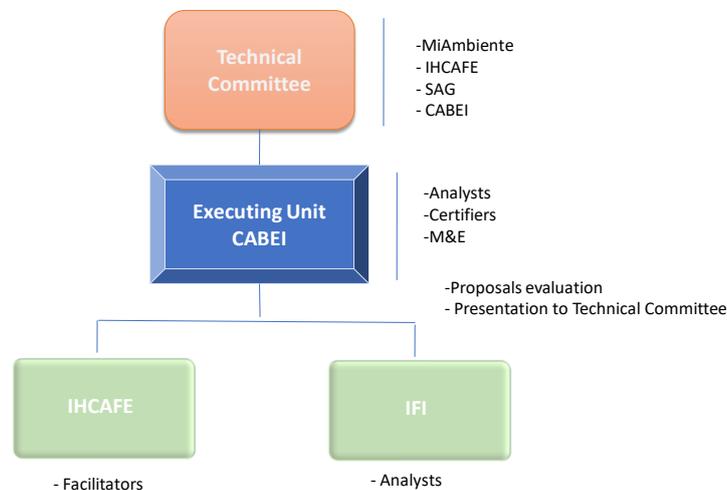
How activities in the proposal are consistent with national regulatory and legal framework

Please refer to section B.1

In what way the Accredited Entity is well placed to undertake the planned activities

The Accredited Entity, the Central American Bank for Economic Integration (CABEI), is a regional development bank based in Tegucigalpa, Honduras that acts as the financial arm for the countries within the Central American Integration System (SICA). The Bank works with a Network of more than 100 Intermediary Financial Institutions (IFIs) at the regional level, including commercial banks, saving and credit cooperatives, micro financial institutions and Private Financial Development Organizations (OPDFs). CABEI is currently implementing the financial component of the Costa Rican Coffee NAMA, through which the resources granted by the NAMA Facility to the Republic of Costa Rica (USD 2.13 million) made possible the contribution of USD 7.64 million from CABEI, which are being channeled through local IFIs using a Global Credit Line (LGA) as financial instrument.

The implementation arrangements with the executing entities and implementing partners will be based on the following Operative Scheme:



The operative decisions regarding policies, activities, funds allocation, contracting and others will be in charge of the Coffee NAMA Technical Committee, which includes members from MiAmbiente, the Secretary of Agriculture (SAG), The Honduran Coffee Institute (IHCAFE), the Forest Conservation Institute (ICF), the Finance Secretary and producers' associations. The IHCAFE and the IFIs will be the executors of the technical and financial components of the Programme, respectively. As mentioned above, the CABEI will be the implementer of the financial mechanism and fund administrator.

Brief overview of the key financial and operational risks

As described in the log frame (Annex A), the key financial and operational risks identified so far are the following:

- Project activities may not be implemented as planned due to institutional non-accomplishments, human mistakes, inadequate internal processes, system failures or unexpected external events. Risk level: Medium
- Financial resources may not be available as planned. Risk level: Low
- Penetration in international differentiated markets may not be achieved. Risk level: Medium

Envisaged mitigation measures and GHG mitigation potential

- **Measure 1: Comprehensive management of agroforestry systems** (carbon capture): Assumptions: 100 timber trees per hectare are planted in 10,000 ha in 2020. Mitigation potential: 65 GgCO₂e in 2019-2023 / 13 GgCO₂e annually over the next 20 years (260 GgCO₂e in 20 years)
- **Measure 2: More efficient use of fertilizers**: To be estimated during further preparation stage
- **Measure 3: Introduction of waste treatment technologies**: Assumptions: Emissions associated with the generation of solid and liquid waste in coffee mills are reduced 30% compared to BAU by means of the implementation of oxidation ponds and other technologies (to be identified and evaluated). Mitigation potential: 160 GgCO₂e in 2019-2023 / 32 GgCO₂e annually over the next 10 years (418 GgCO₂e in 13 years)
- **Measure 4: Replacement of mechanical-electric dryers by solar technologies for coffee drying**: Assumptions: Electricity consumption in coffee drying processes is reduced 100% due to the introduction of solar technologies (specific technologies to be identified and analysed during further preparation stage). The measure is implemented in 40 mills during the Programme timeframe. Mitigation potential: 95GgCO₂e in 2019-2023 / 19 GgCO₂e annually over the next 10 years (188 GgCO₂e in 10 years)

B.3. Expected project results aligned with the GCF investment criteria (max. 3 pages)

Expected impacts aligned with the GCF investment criteria

Impact potential

The Programme will have the following climate-related impacts, contributing to the achievement of the GCF's goals:

- **Mitigation impact**: 320 GgCO₂e at the end of Programme implementation (2023) and 64GgCO₂e annually over the next 10 years
- **Adaptation impact**: The Programme will directly increase the resilience capacity of 4,000 small poor coffee producers in Honduras
- **Result areas**: Forestry and land use (mitigation); Most vulnerable people and communities (adaptation)
- **Sustainable development impact**: Please see below ('Sustainable development co-benefits')

Paradigm shift

- **Potential for scaling up and replication**: The Programme is aimed at enabling a scaling up at the regional and national levels. This experience will serve as model for later replicating the project in other coffee regions at the country level. Scaling up of the initiative to the whole country (338,000 coffee-producing hectares, more than 100,000 farmers and around 1,500 mills) is expected to be triggered as of 2024. A specific consultancy aimed at defining a road map for scaling up is currently at kick-off stage.
- **Potential for knowledge and learning**: The capacity building initiatives and awareness raising campaigns envisaged during the Programme timeframe will sow the seed for mentality change at the productive and financial levels, fostering a transformation in the way coffee production is conceived throughout the whole coffee chain. Even if the process will not be completed within the timeframe of the Programme, the developments that will be triggered will pave the way to irreversible transformations towards sustainability at the sector level in the mid-long term.
- **Contribution to the regulatory framework and policies and to the creation of an enabling environment**: The proposed Programme advances national regulatory, financial and legal frameworks that aim at systematically driving investments to low-emission technologies. It also aims at creating conditions to increase participation of private and public sector actors in low-carbon and resilient development that go beyond the Programme itself:
 - **MRV system and changes in the regulatory framework**: In the mid-long term the measures envisaged in the Programme will become mandatory through changes in laws and sectoral regulations. In addition, once the MRV system is designed and tested, coffee farmers and mill operators will have the obligation of measuring and reporting the GHG emissions associated to their productive activities. This will irreversibly affect production practices introducing new notions of sustainability into the coffee chain;
 - **Financial mechanism**: By imposing conditionalities on the type of technologies and practices that will be financed in concessional conditions, a re-direction of the flow of funds in the coffee sector will be triggered;
 - **Analysis of public budgets**: A profound analysis of current budget categories and funds destination will be undertaken, aimed at identifying current recipients that might not be aligned with the sustainability goals the Programme seeks to trigger and re-orienting the support to sustainable actions that today may not be promoted adequately;
 - **Access to new markets**: The research activities envisaged in the Programme and the design and implementation of the 'Green products' promotion strategy, including the labelling scheme, will lead producers to understand that changing the way they produce can generate new market opportunities and niches that could generate income increases.

Sustainable development co-benefits

- **Environmental co-benefits:** i) Greater resilience and adaptive capacity of productive systems; ii) Conservation of forests and biological resources by creating more productive and resilient coffee systems that will reduce the pressure on native forests and, therefore, modify the dynamics of land use change; iii) Increased biological connectivity and protection of water recharge zones due to the establishment of agroforestry systems with species of commercial and native value; iv) Reduction in the extraction of firewood from native forests (agroforestry systems will provide this service); v) Increased protection of coffee plantations against frost and heavy rainfall; vi) Protection and conservation of soil fertility (reduced risk of erosion); vii) Increased nutrients absorption in coffee plants; viii) Humidity regulation; ix) Reduced local temperatures; x) Reduced pollution of water sources; xi) Increased biodiversity (eg., birds, squirrels, bees)
- **Socio-economic co-benefits:** i) Increased productivity of coffee farms; ii) Diversification of coffee farmers' income sources; iii) Generation of additional income from the exploitation of the additional by-products of shade trees (fruits, wood and firewood for charcoal production) and the premium prices paid in differentiated international markets; iv) Greater satisfaction and independence of mills' energy needs through the implementation of solar technologies; v) Reduction of costs due to reductions in the electricity bill; vi) Employment generation; vii) Improvement of rural producers' life quality; viii) Strengthening of regional economies.
- **Gender-sensitive development impact:** The Programme will aim to reduce gender inequalities in access to capacity building programmes and finance by introducing quotas for women participation and other instruments that are currently under analysis.

Needs of recipient

The main needs of the beneficiary groups include:

- Subsidies for small poor farmers and capacity building programs in order to spread the benefits of the sustainable practices and technologies that are being promoted (agroforestry systems and slow-release fertilizers).
- Soft loans are needed to make waste management and solar technologies affordable to mill operators as well as information diffusion on how they can improve processing and coffee quality.
- Clear regulations are needed aimed at guaranteeing benefit transfer to the whole coffee chain in a fair way.
- Education and access to knowledge and information are needed specially for small illiterate women producers.

The Programme will address the identified needs by delivering capacity building and tailor-made financial products to coffee farmers and mill operators (financial products adjusted to their needs in terms of interest rate, disbursement mechanisms, loan tenor, grace period and repayment).

Country ownership

1. Existence of a national climate strategy and coherence with existing plans and policies: Please refer to section B.1
2. Capacity of AEs and EEs to deliver: Please refer to section B.2
3. Engagement with NDAs, civil society organisations and other relevant stakeholders: Please refer to section B.4

Efficiency and effectiveness

The log frame (Annex A) demonstrates the Programme's capability of producing the desired results. As already mentioned, it has been specifically designed to tackle the identified barriers, with focus on achieving the maximum output with minimum resources. The provided indicators (Annex A) will enable the measuring of whether the produced outputs meet the expected outputs.

B.4. Engagement among the NDA, AE, and/or other relevant stakeholders in the country (max ½ page)

How engagement among the NDA, AE and other relevant stakeholders in the country has taken place

In 2014 Honduras began a national process of NAMA identification and development. The starting high-level discussions were later amplified in workshops that involved stakeholders from the public and private sectors, civil society, NGOs, the NDA and MiAmbiente.

The Sustainable Coffee NAMA of Honduras emerged as one of the main initiatives the country should boost in the short term, due to the key economic importance of the coffee sector, its contribution to national emissions and the relevance the coffee has as a key constitutive element of national identity.

Within this framework, the Coffee NAMA Technical Committee was created, conceived as the main dialogue space for articulating stakeholders and enabling participation of representatives from every involved organisation and institution.

Since the initiative is also considered a priority within the CABEI regional development support agenda, the bank supported the elaboration of this concept note.

The development of this concept into a funding proposal will be based on this multi-stakeholder engagement already achieved, making the most of the Technical Committee as a dialogue space aiming at involving more relevant stakeholders.

C. Indicative Financing/Cost Information (max. 3 pages)

C.1. Financing by components (max ½ page)

Estimate of the total cost per component/output disaggregated by source of financing.

Component/Output	Indicative cost (USD)	GCF financing		Co-financing		
		Amount (USD)	Financial Instrument	Amount (USD)	Financial Instrument	Name of Institutions
1. Financial mechanism						
1.1 Coffee fund	35,500,000.0	20,000,000.0	Grant	15,500,000.0	Credit line	CABEI
1.2 Coffee Credit Line						
2. Expert services / consulting						
2.1 MRV	1,052,000.0	1,052,000.0	Grant			
2.2 Capacity building	430,000.0	430,000.0	Grant			
2.3 'Green Products' marketing strategy	816,000.0	816,000.0	Grant			
3. Other direct and indirect costs						
3.1 Coordination	642,000.0			642,000.0	In kind	National budget
3.2 Logistic (experts' travel expenses, fuel, allowances, per diem)	533,400.0	533,400.0	Grant			
3.3 Others (equipment, publications, buildings)	650,000.0			650,000.0	In kind	National budget
Indicative total cost (USD)	39,623,400.0	22,831,400.0 (58%)		16,792,000.0 (42%)		

C.2. Justification of GCF funding request (max.1 page)

As indicated in section C.1, GCF's resources are requested to capitalize the support fund (Resilient Coffee Fund of Honduras- RCF) that will be created to trigger the transition to sustainability in coffee production, thus enabling CABEI's leveraging 'green products' marketing strategy and design and implement a capacity building Programme. Without these activities and the envisaged financing, the goal of profoundly modifying coffee producers' culture in Honduras could not be achieved.

GCF funding through a grant instrument is being requested due to the lack of fiscal space for additional public expenditure in Honduras, the absence of alternative sources of financing in the conditions offered by the GCF and the income levels of the affected population, namely small poor producers with high levels of illiteracy, unawareness of the functioning of the market and financial issues and incapable of affording the needed investments by themselves. Barriers for the potential beneficiaries to access to finance are described in section B.1.

The resources required to affect a paradigm shift in Honduras approach to natural resource management exceed those that can be supplied through public sector financing. The economic situation of Honduras is outlined in the table below.

Country	Inequality index (Gini) ⁴	Economic status ⁵	Public debt to GDP ⁶	Economic growth (GDP annual%) ⁷
Costa Rica	48.7	Upper middle income	66.2	4.3
Dominican Republic	45.3	Upper middle income	47.1	6.6
El Salvador	40.0	Lower middle income	68.1	2.4
Guatemala	53.0	Lower middle income	30.1	3.1
Honduras	50	Lower middle income	51.9	3.6
Nicaragua	47.1	Lower middle income	46.0	4.7
Panama	50.4	Upper middle income	38.8	4.9

Given this constrained fiscal space, there are limited opportunities to support resilient coffee sector interventions in Honduras. While scope has been identified for partial loan financing at the regional level, the extent of public debt in Honduras constrain its borrowing capacities with regards to global recommended borrowing limits. GCF grant financing is therefore requested to enforce government capacity to implement resilient coffee interventions and administer loan financing to foster long-term resilience.

Barriers for the potential beneficiaries' accessing to finance are described in section B.1.

C.3. Sustainability and replicability of the project (exit strategy) (max. 1 page)

A financial mechanism is being designed to ensure the sustainability of the Programme in the long run. As mentioned before, this mechanism will be fully developed and implemented by CABEI, working together with its network of Intermediary Financial Institutions (IFIs), including commercial banks, saving and credit cooperatives, micro financial institutions and Private Financial Development Organizations (OPDFs).

In conjunction with permanent technical assistance aimed at helping producers identify and implement the practices and technologies that best suit them, specific concessional loans and other financial products will become available through the creation of the support fund. Its specific structure will be opportunely defined.

The support fund replenishment will be mainly based on credit repayment and additional resource mobilization from CABEI, commercial banks and eventually other multilateral funds.

The implementation of the Coffee NAMA initiative will count on the participation of the IHCAFE (Honduran Coffee Institute), who will identify producers and potential projects to be presented to the Executing Unit assigned to the BCIE. This Unit, in turn, will analyse projects from a technical perspective. The information will be shared with the identified IFI for its credit assessment. Once revised, the proposal will be sent to the Coffee NAMA Technical Committee for final approval.

With regards to the disbursement procedure, CABEI will complement the loan total amount by 30% with reimbursable funds and 70% with non-reimbursable funds from the GCF.

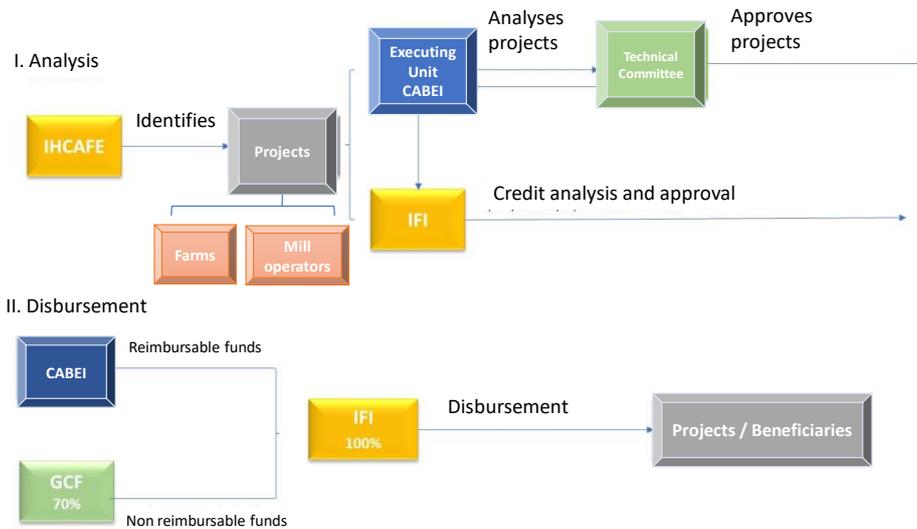
Further details regarding the financial scheme will be developed in the final proposal.

⁴Nicaragua and Guatemala: estimations from CIA Factbook, 2014. Available at: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2172rank.html>. Data for other countries from World Bank, 2016. Available at: <https://data.worldbank.org/indicator/SI.POV.GINI>

⁵ UN World Economic Situation and Prospects, 2017. Available at: https://sustainabledevelopment.un.org/content/documents/25012017wesp_full_en.pdf

⁶ CIA Factbook. 2017 estimations. Available at: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2186rank.html> source.

⁷ World Bank data, 2016.



D. Supporting documents submitted (OPTIONAL)

X Log frame (Annex A)

Estimation of GHG mitigation potential

X Map indicating the location of the Programme (Annex C)

X Diagram of the theory of change (Annex B)

Economic and financial model with key assumptions and potential stressed scenarios

Pre-feasibility study

Evaluation report of previous project

X Results of environmental and social risk screening (Preliminary check list - Annex D)

Self-awareness check boxes

Are you aware that the full Funding Proposal and Annexes will require these documents? Yes X
No

- Feasibility Study
- Environmental and social impact assessment or environmental and social management framework
- Stakeholder consultations at national and project level implementation including with indigenous people if relevant
- Gender assessment and action plan
- Operations and maintenance plan if relevant
- Loan or grant operation manual as appropriate
- Co-financing commitment letters

Are you aware that a funding proposal from an accredited entity without a signed AMA will be reviewed but not sent to the Board for consideration? Yes X No