Honduras electricity market

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An unsigned and colorless mural shows a steep hill of humble homes crowned by three electric posts resembling crosses. It?s painted near Tegucigalpa"s stadium, the venue where presidential transitions occur in Honduras.

Honduras is amongst Latin America"s poorest countries. It is also ground zero for U.S.-bound migration from Central America. Chaos, violence and scarce economic opportunities are linked to widespread extorsion and corruption. But the weak pulse of the Honduran economy also owes much to conflicting interests in its electricity sector, dating back to the 1990s.

As sector rules have changed, powerful interest groups --politicians, labor unions, private electricity generators, banks-- have remained one step ahead, extracting super-profits from the system. These political-entrepreneurial groups have dominated the Honduran electricity sector since the end of the 20th century. And today, Honduras" 21st century transition to sustainable energy is being used to camouflage electricity pricing that far exceed market values for a decade to come.

According to the Honduran High Court of Auditors, 185 contracts were signed during this period with an installed electric output of 4023 megawatts (MW)--around four times more than was needed. And most of them were allotted for renewable technologies, like solar, with 451 MW. For Emma Vel?squez, who has worked for a decade with neighboring communities of the solar energy farms in southern Honduras, this was "the transition to clean energy done with dirty hands."

"We estimate that these companies own about half of the 300 megawatts (MW) of the highly subsidized solar capacity, so they will benefit from the solar energy subsidy by about $12 million a year for 20 years. That will amply compensate them for the cost of renegotiating the thermal contracts, which has been estimated to cost $56 million a year for four years by the IDB," states the IDB.

The transition to renewable energy sources in Honduras, although with the fa?ade of institutional legitimacy, has provided one-sided government deals for the permanent private actors dominating the sector. The much-vaunted Nacaome-Valle solar electricity plant in southern Honduras is prototypical of the country"s subsidy-fueled investment frenzy --which became one of "the fastest expansions of solar energy seen anywhere in the world," according to the IDB.

A laudatory note written by the National Geographic in 2018 reports that when inaugurated in 2015, Nacaome-Vallebecame the largest solar energy plant in Latin America, capable of generating a peak of 125MW --almost one-tenth of the entire Honduran electricity supply. Its developer was formed by a merger between SOPOSA of the Larach Group, which also owns ELCOSA, with COHESA, owned by Honduran Congressman Grimaldi Paz Sosa.

The now disgruntled Grimaldi had acquired a twenty-year 70 MW generation contract for his company, which had just been established in August 2013, and despite no previous experience. Nacaome-Valle obtained US$232mn in funding from Finnfund and WB?s International Finance Corporation, among others. However, this case is not an exception in what has been occurring in the Honduran electricity sector, rather the norm.

Meanwhile, Honduras" national electricity grid, operated by the Honduran National Electric Company (ENEE), is in deep financial distress. Much of its deficit is the result of the loss of nearly 38% of the grid?s electricity due to technical difficulties and theft. A WB analysis estimated that 39%, 22%, and 31% of theft losses were made by residential, commercial, and industrial consumers, respectively.

ENEE"s total losses cost Honduras about US$646 million annually, according to Honduran President Xiomara Castro`s administration in 2022. This annual loss is considerably greater than what Honduras could receive from the US$4 billion in U.S. aid to be sent in the next four years to the Northern Triangle--Honduras, El Salvador and Guatemala--as proposed by the Biden administration to tackle the "root causes of migration."

"The outcome is (a) ongoing losses and huge debt in the sector, which feeds into the country"s ongoing fiscal crisis; and (b) at the same time, high user tariffs and poor quality services which reduce living standards and undermine investment incentives which impede growth," explains Ian Walker, an Oxford University development economist who has worked in Honduras since 1988 as a WB and IDB official and advisor to both liberal and conservative administrations.

Something different happened in Honduras. "It"s been a push and pull among different actors to secure the state-controlled rents," says economist Ian Walker. Worse still, the ENEE absorbs the deficits of the system, including generator-incurred debt, which then gets levied against the country"s general budget.

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