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FINAL REPORT

ASSESSMENT OF THE SUPPORT ROLE
OF THE PRIVATE SECTOR IN ACHIEVING
ACTION PLAN OBJECTIVES

PREPARED FOR
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
TEGUCIGALPA/HONDURAS
UNDER CONTRACT # 522-9106-C-00-8191-00

APRIL 1988

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EXECUTIVE SUMMARY

This report is an assessment of the role that the private sector is playing in assisting the Mission to carry out its Action Plan objectives. It is intended to provide the reader with a description of which objectives are supported via private sector mechanisms, how these objectives are supported by private sector entities, and which private sector entities are being utilized to this end, with a description of these entities. In carrying out this assignment, the team relied for the most part, on an existing collection of in-house documents and evaluations, as well as interviews with key USAID staff members, to familiarize themselves with the specific projects and institutions, and to extract relevant conclusions. The task was made possible within the limited time available because of the team's familiarity with the country and with the Mission's program.

Of the eleven Mission objectives stated in the FY89-90 Action Plan, five are addressed primarily through the use of a private sector mechanism. These are:

- Increase agricultural production
- Promote new export earnings
- Increase usage of voluntary family planning services
- Construct new homes and improve existing ones
- Generate productive employment

The team also identified*fourteen key private sector institutions which contribute in a more substantial manner to the accomplishment of the specific objectives stated in the Action Plan. For the most part, the team found that these institutions contribute to the Action Plan objectives related to exports, job creation and agricultural production (See Table I on page 7 and Table II on page 30 of the report).

The AID/W committee that reviewed the Mission Action Plan for FY 1988-89 questioned why the Mission had not selected strengthening the private sector as a direct objective of the Mission's Action Plan. The Mission responded that "it views the private sector as a means of achieving program objectives" and declined to formulate a private sector strategy per se. Implicit in this response, a rejection of institutional building efforts could be read; as well as a maximization of the use of institutions for the channelling of resources to various beneficiary groups and a minimization of the resources allocated to institutional strengthening of the direct beneficiary. In a majority of cases, however, the opposite has been true. Institution building and strengthening in direct support of private sector initiatives has taken precedence over the use of resources to achieve specific program targets, particularly in the early years of a project, for example in the area of export and employment generation.

The Mission should give explicit recognition to the role that it is playing in strengthening the private sector, and establish objectives and targets that will reflect the effort which is being undertaken in this area. By recognizing the fact that the program has also been targeted at the support of the private sector, and institution building efforts as a first indispensable stage, the Mission will be better able to understand and explain the paucity of results in achieving stated program objectives in the development of exports and employment. The consultant view the experience gained by the institutions as valuable lessons learned, that will better prepare them for future activities and facilitate the accomplishment of Action Plan objectives.

While strengthening private sector institutions in order to enhance their ability to serve Honduras and the Mission in accomplishing the Action Plan objectives, overdependence on USAID funding may endanger their very survival in the long run. As pointed out in the body of the report, all of the fourteen key institutions receive more than 50% of their current revenues from USAID, and eight of the fourteen institutions analyzed will probably not achieve self-sufficiency by their respective PACDs.

The consequences of termination of USAID supported projects must be considered in designing projects, and mechanisms should be devised that will assure the survival of the implementing agency when this is determined to be an implicit goal of USAID's support.

Of the eight institutions that are currently not expected to reach self-sufficiency by the PACD, some will not because of a failure in the project's management or other project input necessary for long term self-sufficiency. On the other hand, some projects are not going to achieve self-sufficiency because of the type of work that they have been asked to do, or because of current conditions in the country. In these latter cases, where self-sufficiency is not achievable and therefore not a valid objective, and where the Mission is satisfied with the achievements of the institution, the Mission will eventually be forced to make a decision on whether or not these programs should continue to provide a service without USAID support, or if there is no longer a need for the service, and therefore the institution should close down or diversify its services into other areas.

A clear determination needs to be made during the project design stage if the implementing institution is to outlive its terminal funding date, and what the impact on the project, and the service or product that it delivers, will be. An up-front assessment of

the project's potential for self-sufficiency given the type of service that it delivers is necessary so that institutions that can achieve long term self-sufficiency can work towards that goal. At the same time, in projects where self-sufficiency is not compatible with its objectives, this should be recognized at the outset so that valuable resources (USAID's and recipient organization's) are not wasted trying to achieve this goal.

I. INTRODUCTION

A. Background/Objective

In March of 1987, USAID/Honduras presented the FY 88-89 Action Plan for review in Washington, D.C. During that review, USAID/Honduras defended its position that the private sector is a means for achieving the overall program objectives, and should not be viewed as a discrete objective on its own. AID/W has accepted the Mission's perspective on the role of the private sector in Honduras, but at the same time has requested that the Mission undertake an assessment of the role of the private sector in assisting the Mission in achieving the Action Plan objectives.

This report is an assessment of the role that the private sector is playing in assisting the Mission to carry out the Action Plan objectives. It is intended to provide the reader with a description of which objectives are supported via private sector mechanisms, and which private sector entities are being utilized with a description of these entities. General conclusions and specific recommendations are also included regarding ways to improve on this private sector approach in order to better achieve the objectives. On the other hand, no attempt has been made to directly evaluate the Mission's strategy to achieve the Action Plan objectives or to independently evaluate the private sector entities themselves.

B. Methodology

A team of four professionals worked on this assignment for three weeks in Honduras. For the most part, the team relied on an extensive collection of in-house documents and evaluations to familiarize themselves with the subject matter and extract relevant conclusions and recommendations. Many interviews with key USAID staff were also conducted to gain an understanding of the subject matter from different perspectives.

The four team members had an extensive knowledge of Honduras and of the different Mission programs. All had worked previously in Honduras on other USAID assignments and in some cases had participated in evaluations of some of the private sector entities discussed in this report. This previous background allowed the team to quickly understand the Mission's program and focus on the key private sector institutions which contributed in a substantial manner to the accomplishment of specific Action Plan objectives.

The team would like to thank USAID staff for their assistance and cooperation in helping carry out this assignment. Without the full cooperation and willingness of the Mission to discuss and clarify issues with the various team members, in spite of their

own very busy schedules, it would have been impossible to carry out this assignment in a timely manner.

C. Presentation

The report is divided into four chapters, in addition to the executive summary, which cover the issues raised in the scope of work for this assignment. Key conclusions and recommendations have been underlined to make it easier for the reader to find specific recommendations in the text of this report.

II. BACKGROUND

A. The Environment

Honduras' low rate of economic growth during the past decade has resulted in an increased deterioration of an already precarious standard of living for the immense majority of the population. In the 1978-87 period the economy expanded at an average rate of slightly over 2.0%. In 1985-1986 the rate of growth increased to about 3%, but even this rate of increase did not keep pace with population growth, estimated at 3.3% per year. Economic growth reached 4% in 1987, the best performance since 1979. Notwithstanding real per capita GDP* is still 10% below what it was a decade ago. Honduras is by any measure one of the poorer developing countries and the poorest in the region.

At the same time, this lackluster economic performance has worsened the chronic unemployment and underemployment picture. While official figures show open unemployment at around 12%, unofficial estimates place this figure much higher, particularly in rural areas. Actually the structure of the economy tends to hide the gravity of the problem. For example in the manufacturing sector 0.2% of the firms employing 23% of the labor force are responsible for 54% of the output, while 98% of the enterprises with less than five employees each, contribute only marginally to output. In the agricultural sector a comparable situation exists, with "export agriculture" accounting for a major share of GDP while domestic oriented production employs a disproportionately larger share of the rural work force.

In the context of the poor overall economic performance of the past decade, it is important to note the high level of public sector participation in the economy. For the year 1984-1987 expenditures of the consolidated nonfinancial public sector amounted on average to 29.2% of GDP. Furthermore the consolidated nonfinancial public sector deficit has ranged from a high 11.2% in 1984 to a low of 6.35% in 1986.

The ability of the Honduran private sector to take the lead in formulating and implementing strategy aimed at stimulating savings and investment on the scale required to overcome economic stagnation and to prevent further worsening of the unemployment/underemployment situation is limited by a number of major constraints. These constraints have been identified and analyzed in various other studies, and generally fall under three major categories:

- An inadequate policy framework
- Limited resources/skills

* Estimated at \$600 in current prices.

A poorly developed institutional framework both in the public and private sectors.

It is this latter aspect that has more directly influenced the character and results of the strategy pursued by USAID which "views the private sector as a means of achieving program objectives."

Recent studies* have characterized the Honduran private sector as one of the weakest in Latin America. Several factors accounting for this situation: a weak entrepreneurial class, regional dispersion and a limited infrastructure, economic dominance by foreign-owned (enclave) companies, delayed import substitution industrialization, and ethnic divisiveness.

Both regional dispersion and the relative weakness of a modern industrial/entrepreneurial class is reflected in the fractionalization of organizations which claim to represent the private sector. Moves toward consolidation or confederations is a quite recent phenomenon which USAID has both encouraged and supported.

It is against this backdrop of limited skills particularly in management, weak organizational structures, regional dispersion and dire needs, that USAID was faced with the challenge and opportunity of greatly expanding its assistance program in a very short period of time.

B. USAID: Role in Honduras

USAID has played a major role in the stabilization of the Honduran economy, and in bringing about the type of policy reforms necessary to create conditions more favorable to a private sector led economic recovery. The Mission's support to the country as shown in the table below has been substantial and definitely reflects a strong commitment to the economic development of Honduras.

* Honduras Private Sector Policy Dialogue Project, International Science and Technology Institute, Inc. July 1987.

Obligations

(Millions of U.S. Dollars)

	FY81	FY82	FY83	FY84	FY85	FY86	FY87
D.A.	25.2	30.3	31.0	30.8	51.6	43.0	41.7
ESF	0	36.8	56.0	40.0	147.5	61.2	131.1
PL480	<u>7.0</u>	<u>9.7</u>	<u>13.7</u>	<u>19.3</u>	<u>18.6</u>	<u>18.6</u>	<u>23.6</u>
TOTAL	32.2	76.8	100.7	90.1	217.7	122.8	196.4

With USAID's increased support level, has come an overall expansion in the scope of the Mission's programs and activities in collaboration with both private sector and public sector organizations. This expanded level of funding and scope has meant that the Mission has had to work with new organizations, and in many cases has assisted in the creation of new ones, where existing organizations were found not suitable or where there was an organizational vacuum altogether.

The extent to which USAID has increased its interaction with the private sector was analyzed in part in November of 1987, when the Mission contracted with the consulting firm of Development Associates, to "carry out an assessment of the management and other implications of the three types of PVO/NGO activities carried out by USAID". Quite revealing among the results of the study: of 300 PVO/NGOs registered in Honduras, 200 of them appear to have received either directly or indirectly, funding from USAID. The report also points out that 41 of the 200 PVO/NGO's actually received funding directly and that 26 of these appear to be directly linked to regular USAID projects.

The report* concluded that the sheer number of PVO/NGO's have caused considerable management burdens within USAID, especially in the Development Finance and Controllers office. In 1986, for example, the Controllers office performed 62 audits on specific PVO/NGO's. Even the use of umbrella organizations, such as FOPRIDEH, has not resulted in a significant reduction of the work load for Mission staff. On the contrary, the Davis report concluded that a project like FOPRIDEH as presently structured

The rapid growth of the Mission's programs in the last few years has clearly contributed to the growth in the numbers of PVO/NGO's in Honduras. In effect, the Mission was "forced" to work with new institutions in order to carry its ambitious and growing program. Had it chosen to work with existing institutions only, progress would have had to go through could also have been a disservice to the recipient, and burdened Mission staff with a

* Prepared by Dr. Peter B. Davis

much. This "horizontal spread" now presents Mission staff with a dilemma because in the effort to strengthen and concentrate on the institutions that contribute to the mission objectives, some existing PVO/NGOs are apt to fail.

C. Key Private Sector Institutions/General Characteristics

Upon a review based on existing documentation of key institutions that directly or indirectly receive USAID funding, we have selected fourteen private sector institutions which contribute in a substantial manner to the accomplishment of the specific objectives stated in the Action Plan. For the most part, these institutions contribute to the Action Plan Objectives related to exports, job creation and agricultural production. A list of these institutions is provided in Table I. Our analysis of the private sector institutions which are particularly relevant to the Action Plan objectives has thus focused on these institutions.

The institutions were classified into several categories depending on whether they are non-profit or for-profit organizations, and whether they render services to their own members or to others. The detail is shown in Table I, and a summary is shown below:

Service to others/non-profit:	8
Service to others/for-profit:	2
Service to members/non-profit:	4
Service to members/for-profit:	0
Total:	14

An analysis of the membership of the Board of Directors was also carried out, and it is presented in Annex IV. It is important to note that although Honduras is a small country, the overall level of overlapping Boards of the fourteen institutions is very low. Of 120 Board members shown in Annex IV, only one is on three different Boards of the organizations shown one is on four of the Boards, and ten others are on two of the Boards, leaving over one hundred Board members that are only on one Board of Directors.

TABLE I
SELECTED PRIVATE SECTOR INSTITUTIONS

ASEPADE: Asesores para el Desarrollo de Honduras
Type of Institution: Service to others/non-profit

AVANCE: Asociación de Promoción y Desarrollo Socio Económico
Type of Institution: Service to others/non-profit

ASHONPLAFA: Asociación Hondureña de Planificación de la Familia
Type of Institutions: Service to others/non-profit

CCIC: Cámara de Comercio e Industria de Cortés
Type of Institution: Service to members/non-profit

CADERH: Consejo Asesor para el Desarrollo de los Recursos Humanos
Type of Institution: Service to others/non-profit

COHEP: Consejo Hondureño de la Empresa Privada
Type of Institution: Service to others/non-profit

FEPROEXAAH: Federación de Asociaciones de Exportadores Agropecuarios y Agroindustriales de Honduras
Type of Institution: Service to members/non-profit

FOPRIDEH: Federación de Organizaciones Privadas de Honduras
Type of Institution: Service to members/non-profit

FIA: Financiera Industrial Agropecuaria
Type of Institution: Service to others/for profit

Fondo Ganadero: Fondo Ganadero de Honduras, S.A. de C.V.
Type of Institution: Service to members/for profit

FHIA: Fundación Hondureña de Investigación Agrícola
Type of Institution: Service to others/non-profit

FIDE: Fundación para la Investigación y el Desarrollo Empresarial
Type of Institution: Service to others/non-profit

FUNADEH: Fundación para el Desarrollo de Honduras
Type of Institution: Service to others/non-profit

GEMAH: Gerentes y Empresarios de Honduras
Type of Institution: Service to others/non-profit

III Action Plan Objectives and Key Programs

A. Action Plan Objectives Addressed Primarily Via a Private Sector Mechanism.

Of the eleven Mission objectives stated in the FY89-90 Action Plan, five are addressed primarily through the use of a private sector mechanism. These are:

- Increase agricultural production
- Promote New Export Earnings
- Increase Usage of Voluntary Family Planning Services
- Construct New Homes and Improve Existing Homes
- Generate Productive Employment.

1. LAC Objective # 1: Increase the Agricultural Sector GDP by \$280 MM from 1985 through 1992.

The increase in agricultural sector GDP due to production stimulated by AID-assisted programs is contributed to primarily by five projects: Rural technologies (522-0157), Natural Resources Management (522-0168), Small Farmer Coffee Improvement (522-0176), Export Development and Services (522-0207) and Small Farmer Livestock Improvement (522-0209).

With the exception of Natural Resources Management, all other projects are carried out primarily through the private sector. Implementing agencies such as FEPROEXAAH and the FONDO GANADERO are nonprofit private sector organizations that service their private sector members. Others such as the Instituto Hondureño del Café (IHCAFE) and the Center for Industrial Development (CDI) are semiautonomous organization of the Ministry of Economy of the GOH. The direct beneficiaries of the project, however, are private sector small farmers and small-scale rural industries.

The objective is measured in terms of the contribution made to the agricultural sector GDP by the above indicated projects. The average growth rate of 76% observed in the GDP contribution of these projects over the last three years (1986-1988) is not expected to be maintained. It will drop to an average rate of 31% for the next two years and then to 10 to 12% for 1991 and 1992, an assumption which appears reasonable. Inasmuch as the total agricultural sector GDP grows at a slower rate (average of 5.5% annually from 1988 to 1992) than the five USAID projects, these become increasingly more important to the economy of the country. This can be observed from the following table:

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1988</u>	<u>1990</u>
GDP added by USAID Projects to total Agr. Sector GDP (%)	0.68	1.11	1.88	3.24	3.88	5.01

Achievement of the Action Plan objective depends largely on USAID's ability to implement some planned actions to assure that the projected production outputs of the five projects materialize and therefore it is too early to judge if the long term objective will be met. While the team was in the process of carrying out this study, the Mission itself was in the process of reviewing the Action Plan objective and making adjustments. Two of the projects which contribute to the achievement of this objective are in the process of being restructured or have recently been restructured.

2. LAC Objective # 5: Promote \$480 MM in new export earnings from 1985 through 1992

The export earnings objective is expected to be achieved through nontraditional exports of both agricultural and industrial products as well as through some traditional agricultural exports. Nontraditional exports are supported by the Export Development and Services project (# 522-0207) which has an agricultural (FEPROEXAAH) and an industrial component (FIDE). Only two traditional agricultural exports receive USAID support: coffee through the Small Farmer Coffee Improvement project (522-0176), and lumber through a Forestry Development Project (522-0246).

USAID projections indicate that FEPROEXAAH should make an increasingly larger contribution to total nontraditional agricultural exports as may be observed from the following analysis:

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Total nontraditional Agri. Exports (\$ million)	31.9	31.0	40.4	48.4	57.0	68.5
FEPROEXAAH's Contribution (\$ million)	5.5	8.3	21.6	32.5	43.4	54.0
FEPROEXAAH's Contribution (%)	17	27	53	67	76	79

Although it is logical to expect FEPROEXAAH to make a major contribution to exports, it is an assumption that should be questioned based on the institution's past performance. Furthermore, the numbers seem to indicate that non-FEPROEXAAH related agricultural exports are actually declining over time, an assumption which also must be questioned.

As pointed out elsewhere in this report, USAID is in the process of taking corrective action to put FEPROEXAAH back on track since its impact on exports has been minimal so far. The figure of 27% as FEPROEXAAH's contribution to total nontraditional agricultural exports in 1986 is more than twice the 12% shown in the evaluation report.

Similarly to FEPROEXAAH, it is assumed that FIDE will make an increasingly larger contribution to total exports of non-traditional industrial products as shown in the table below. However, the projected contributions as percentage of total exports are much lower than those shown for FEPROEXAAH and are more credible. Also, FIDE has shown a better performance to date.

Projections for total industrial exports assume faster growth from 1988 to 1990 than from 1985 to 1988. As in the case of the agricultural production objective (LAC Objective #1), the achievement of this Action Plan objective by 1992 depends largely on actions to be taken by USAID to improve project performance (FEPROEXAAH) or on projects which are still in the process of being implemented, such as FIDE's investment promotion program. Given the current situation, however, and the growth levels which have been achieved in the past we feel that the Mission may experience difficulty in achieving this long term objective by 1992.

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1988</u>	<u>1990</u>
Total nontraditional Industrial Exports (\$ million)	87.0	85.5	98.3	113.0	130.0	150.0
FIDE's Contribution (\$ million)	4.5	10.5	18.0	27.0	40.0	58.0
FIDE's Contribution (%)	5	12	18	24	31	39

3. LAC Objective # 8: Increase access to voluntary family planning services: Increase contraceptive prevalence from 35% in 1985 to 48% in 1992.

In regard to accomplishing the target objective of achieving 44% contraception use among the child bearing population of Honduras by 1990 (48% by 1992), the ASHONPLAFA program has already achieved a rate of 40%. In addition, ASHONPLAFA through its distribution network of PVOs/NGOs, is now responsible for more than 50% of the distribution of contraceptives in Honduras.

Other programs which contribute to the achievement of this other Action Plan objective include USAID support for the Ministry of

health (MOH) population program, funded under the Health Sector I project (\$3 million) and proposed for the Health Sector II project (\$3 million). It is estimated that government programs are responsible for approximately 20% of the distribution of contraceptives in Honduras, while 30% of the total distribution is attributable to commercial outlets.

Perhaps the greatest challenge which ASHOMPLAFA faces now is on achieving financial self-sufficiency. Alternative means of raising income levels for ASHONPLAFA and increasing its potential to become self-sufficient in the future without AID resources, include: 1) improving administrative efficiency and effecting cost controls; 2) raising prices on products that have remained constant in nominal terms for the past 11 years; and, 3) undertaking new fund-raising campaigns with other potential donor groups.

ASHONPLAFA and the Mission have set a longer-term target objective of achieving a 60% rate of contraception usage by the year 2000. It is projected that contraceptive use will continue to increase by approximately 2.5% per year by means of AID assistance for ASHONPLAFA's institutional support and delivery mechanisms and MOH family planning programs, and through continued commercial distribution.

4. LAC Objective # 11: Construct 6,435 new homes and improve 19,649 existing homes from 1985 through 1992.

The self-sustainability of housing finance projects is a key concern, particularly over the next five years, for Mission involvement in and completion of housing objectives. RHUDO is in the process of developing a strategy for a comprehensive and stable housing finance system aimed at increasing private and public financial resources available for housing. By working in a collaborative way with private pension funds, savings and loan associations, as well as public sector entities and the GOH, the Mission anticipates utilizing additional resources for new and existing housing, increasing access to shelter by lower income families, and helping to create a legislative environment that will encourage domestic savings.

Specific mechanisms which impact on the private sector and facilitate the achievement of Action Plan objectives include: an initial policy dialogue between USAID/Honduras and the GOH, fostered under the HG-008 Implementation Agreement, resulting in the establishment of a betterment tax to allow secondary cities to recuperate a larger part of the cost of capital improvements made on behalf of project beneficiaries in the private sector (the legislative bill was approved in November, 1987, and is now being developed into the Municipal Reform Law which is due to pass Congress in CY1988); and the HG-008 project designed

primarily for private sector participation, which limits to 20% the total project funding directed to the Honduran public sector.

At the end of FY'87, the USAID/Honduras and RHUDO housing programs have produced a total of 945 new housing units, or slightly less than the projected 1,027 new units, due to a delay in signing the HG-008 Agreement. However, in the area of housing improvements, the HG and Mission projects had a cumulative total of 2,181, or approximately 468 units above the projected target set for that time.

Mission projections show that with two large projects under the HG-008 agreement coming on stream in FY'89, the Mission will achieve and surpass the housing target of 6,435 new units. By the end of FY'90, the HG and Mission programs will have bettered the target for new units by 1,000 (total cumulative of 7,590), and this rate is expected to continue on through 1992.

The target of 19,649 existing homes being improved by 1992 will actually be achieved by the end of fiscal year 1988. Mission projections based on actual data for FY'86 and '87 show that by 1990, improved housing benefiting from AID funded projects will reach a total of 57,298. In addition, two new RHUDO projects are proposed for FY'90 to continue the Mission's efforts in private sector shelter finance and local government strengthening. Both of these projects will also contribute to greatly surpassing housing objectives/targets by FY'92.

5. LAC Objective # 15: Generate 658,000 persons year of productive employment from 1985 to 1992

The objective is divided into two components: a) person-years employment attributed to ESF Balance of Payment Support, which includes ESF amounts that are projectized, as well as amounts that are not; and, b) Project employment related to non ESF sources. The amount of person-years employment attributed to the ESF program as a percentage of total person-years employment is 90% for 1985 and 1986, and is projected to drop to 83% by 1989 and 62% by 1990. On a cumulative basis between 1985 and 1990, ESF accounts for 80% of the person-years employment.

Given that a large portion of ESF is projectized, and that in the next few years an even greater proportion of ESF will be used to finance project local currency needs, it is important to break out from the overall ESF employment figures, the amounts that are project related. The analysis which was conducted by the Economic Section shows that if we subtract from the ESF objective, employment which is directly attributable to ESF generated local currency financed projects, slightly more than 52% of the cumulative employment target between 1985 and 1990 is projected to be achieved through nonprojectized ESF.

Employment calculated as a result of nonproject ESF is done so based on a relationship between nonproject ESF, growth in GDP, and person-years of productive employment as a result of GDP growth (see the Mission's "Employment Strategy of Honduras" for methodology). While the calculation is not in question, it must be pointed out that at least half of the overall employment objective is not being accomplished by a private sector mechanism, even though it is understood that GDP growth in general is being accomplished for the most part in the nongovernment sectors.

Employment generated through non-ESF sources is expected to be accomplished mostly through private sector organizations, of which the agricultural projects alone are expected to account for 62% of the objective for non-ESF sources between 1985 and 1990. With the exception of the projections shown for the agricultural sector, the projections appear reasonable and achievable. In the agricultural sector, the team questioned the ability of some of the projects to generate the levels of employment that are being projected.

Within the non-ESF component, several key projects/institutions play a role in achieving the objective targets. In the agricultural sector, a total of nine different projects are involved of which the Rural Technologies, Small Farmer Improvement, Export and Development Services (FEPRO) and PL480 alone account for 80% of the agricultural sector's 1985 to 1990 cumulative target, and about 50% of the overall non-ESF cumulative 1985-1990 target. In the Human Resources sector more than seven projects are involved, of which one, the Advisory Council for Human Resource Development (CADERH), accounts for slightly more than half of the sector target. In the Private Sector component, the FIDE and Small Business projects are responsible for all of this sector's target, and in the Housing and Shelter Sector as well as Engineering Sector, five projects contribute to employment of which the Rural Roads project will contribute the most (short-term construction employment).

Total person-years of employment for both components of the objective (ESF and non ESF) average about 84 thousand person-years of employment per year between 1985 and 1990, and there is only a very small increase in person-years employment on an annual basis (3.7% annual growth between 1985 and 1990). In other words, while the program is maintaining an overall level of person-years of productive employment, it does not appear to be significantly contributing to solve one of the most pressing problems in the country - unemployment.

B. Key Private Sector Institutions/Brief Descriptions

In Chapter II of this document, fourteen private sector organizations were identified as playing a major role in helping the Mission accomplish its Action Plan objectives (see Table I). In this section of the report, a description of each of the fourteen organization is presented along with relevant observations from recent evaluations or other project reviews.

1. ASESORES PARA EL DESARROLLO DE HONDURAS: (ASEPADE)

The project purpose is to enhance the productivity, employment and income generation potential of micro-enterprises in the informal sector. On July 31, 1986, a two year agreement was signed (OPG No. 522-ESF-0319) with Acción International/AITEC working in collaboration with ASEPADE, to provide support for a credit and managerial program for micro-enterprises in the areas of services, manufacturing, small vendors and businesses in Tegucigalpa, San Pedro Sula and Choluteca.

Total LOP funding is Lps. 1,865 million: with AID providing Lps. 935,450; the IDB Lps.447,060; PACT Lps. 137,150; and a counterpart contribution from Acción of Lps. 244,200. The grant expiration date is set for July 30, 1988.

Acción and ASEPADE have been successful in providing assistance to the microenterprise sector of Honduras, which is responsible for generating a higher rate of jobs per investment than any other sector of the economy. Higher lending levels have been achieved due to the program's success in promotion, credit extension and training. To date, income generated from interest on the outstanding loan portfolio is sufficient to cover approximately 54% of program operational costs. The program is well on its way toward a substantial level of self-sustainability.

Project data show that for every four loans made by ASEPADE under the project, three new jobs are created. Of equal importance is that each new loan is also responsible for the maintenance of an additional four jobs within the micro-enterprise sector. In 1987 for example, ASEPADE/Acción made 483 loans to individual micro-entrepreneurs (1,425 total loans), which resulted in the generation of an additional 362 new jobs, and the maintenance of another 1,932 jobs.

ASEPADE, with critical assistance from and a strong relationship with Acción/AITEC, has developed its own important niche within the microenterprise sector -- making short-term, high volume loans of approximately \$350 per credit, compared to an average size loan of \$3,500 made by FUNADEH to a small scale enterprise subborrower. ASEPADE has already developed a strategy to graduate a portion of its clientele to the formal leading sector.

Under the proposed Small Business II project, ASEPADE will serve, along with FUNADEH and ANDI/PYME, as a key technical assistance resource center for project beneficiaries. Three commercial financial institutions also will play an important role in the project, and two of these entities have expressed an interest in establishing a loan window for microenterprises.

In sum, the ACCION/AITEC support for ASEPADE programs has been a critical factor in assisting the development of a solid client base, and in developing project reporting and monitoring capabilities that are extremely effective in managing this type of "grass roots" development program which contributes significantly to the Action Plan objectives for employment generation.

2. ASOCIACION DE PROMOCION Y DESARROLLO SOCIO-ECONOMICO: (AVANCE)

AVANCE is a private nonprofit voluntary organization incorporated under the laws of Honduras on February 4, 1984. It was established, with the help of a USAID grant, by a Colombian priest Monsignor José Salcedo and modeled after Acción Cultural Popular, a similar organization which has used mass media communication for educational purposes very successfully in Colombia for about 40 years. AVANCE is governed by a General Assembly composed of 26 important Honduran businessmen representing a carefully balanced mix of political parties and geographical regions. A 9-member Council elected by the General Assembly assists the Executive Director with day-to-day management decisions.

On March 4, 1987, USAID signed a 5-year Cooperative Agreement (USAID Project # 522-0273.01) to support AVANCE with a grant of \$5.4 MM plus L. 10 MM made available by the GOH from ESF generated funds. The purpose of the Cooperative Agreement was to provide a variety of media-based educational services through the Honduran private sector, thereby assisting in improving the quality and efficiency of primary education. Under this Agreement, AVANCE will develop an interactive radio program for math and language lessons in primary schools, and adult instructional programs in agriculture, health, nutrition and literacy for community broadcasting servicing. Additionally, the weekly newspaper "EL AGRICULTOR" published by AVANCE will be improved based on research and materials designed to increase popular entertainment, and development-oriented reading will be written, edited and printed. Marketing plans for materials produced by AVANCE will be developed to achieve financial self-sufficiency.

USAID is carefully monitoring AVANCE's progress and expects goals to be met over the life of the project. No interim evaluation of the Agreement has been made as yet.

3. LA ASOCIACION HONDUREÑA DE PLANIFICACION DE FAMILIA:
(ASHONPLAFA)

The project was signed on June 21, 1985 for total funding of \$13.08 million, which includes an AID grant of \$9.81 million and a project counterpart contribution of \$2.937 million. The project is designed to increase the services of the Association to allow for an increase in the usage of contraceptives from 35% to 44% by 1990. The major outputs which contribute to the accomplishment of this objective are: (1) management decentralization of ASHONPLAFA's clinical and voluntary sterilization services; (2) expansion of the Community-Based Distribution (CBD) services; (3) increased effectiveness of the Contraceptive Social Marketing (CSM) activities; and (4) expansion of the Information, Education and Communication Department of ASHONPLAFA.

In May, 1987, an evaluation of the ASHONPLAFA project was conducted to assess progress toward the achievement of project objectives after two years of implementation in the objectives of service delivery and execution, and administration of services. The ASHONPLAFA project was judged to have completed all requirements in accordance with the grant agreement to date. Although project results have been positive so far, there does appear to be some difficulty with the consistency and fragmentation of project data both in collection and analytical procedures. With expanded family planning services projected over the next two years, this problem will be exacerbated. Thus, it is essential that project management give top priority to the systematic collection of project statistics and the analysis, processing and dissemination of this information to facilitate monitoring of the project.

ASHONPLAFA was established in 1963 with assistance from the International Planned Parenthood Federation. ASHONPLAFA is an institution with a sound track record, and with USAID and other donor assistance has been able to accelerate the development of its decentralization process and distribution system. It is reasonable to expect that ASHONPLAFA can achieve self-sufficiency during the life of the new project based on other sources of funds identified to date.

4. CONSEJO ASESOR PARA EL DESARROLLO DE LOS RECURSOS HUMANOS:
(CADERH)

The OPG signed on April 1, 1985 with CADERH has total funding of

\$2.08 million and L. 15.668 million in local currency. The project was expanded to \$6,325,000 and the PACD was extended to May 30, 1992. The last amendment and tranche of funds was conditioned upon CADERH becoming financially self-sufficient by 1992, and as such the Mission does not anticipate any additional funding to CADERH beyond this date.

The project purpose is to strengthen CADERH, a technically and financially viable vocational/technical institution, to continue its ongoing role as the link between the private sector and the vocational technical training system for responding to private sector needs and priorities

CADERH's primary focus to date has been that of a "broker" of training services for editing instructional modules and carrying out certification exams for compliance with competency-based instruction (CBI). Activities supported under the last amendment will establish mechanisms that will: (1) provide job entry level skills training, certification, and job placement, and; (2) provide skills upgrading, training, certifying and increasing the productivity of existing employees.

The project's performance was evaluated after approximately 30 months of operation. A general conclusion was that CADERH needed more time to realize its potential to make a difference in the quality and productivity of the work force, and the longer term goal of establishing a "blue collar" class in Honduras. Although CADERH was originally conceived as a part of the FIDE/FEPROEXAAH structure, this relationship has changed and a better definition of roles and relationships among these organizations is required.

The evaluation pointed out several key issues which should be addressed by USAID/Honduras and CADERH in terms of project direction through 1992. Self-sustainability of CADERH as an institution is critical if the project is to achieve its longer term objective. Self-sustainability depends, however on CADERH's ability to promote and sell its training materials in the marketplace; a firmer definition of CADERH as a business organization responsive to the needs of its clients; and, the reorganization of CADERH from a research and development institution to a service delivery organization in support of private and public sector skills training.

5. CAMARA DE COMERCIO E INDUSTRIA DE CORTES: (CCIC)

The CICC is a private voluntary organization originally organized in 1931. The chamber seeks to promote a better business climate, improve the local community and contribute to economic and human development by strengthening the regional and national economic, social and political systems.

In August of 1985, USAID/Honduras signed an OPG with CCIC which was to provide for the orderly development of the CCIC, help promote better coordination among the private sector institutions, increase the range and quality of services that the chamber could offer, improve its' physical facilities, and help the institution achieve self-sufficiency by the end of project in 1989. Total USAID funding under the OPG is for L.1,350,000, of which L.1,125,00 has already been disbursed.

Conversations with Mission staff reveal the general satisfaction with this project which appears to have not required a great deal of staff time and project supervision. A formal evaluation is scheduled for the third quarter of fiscal year 1988.

6. CONSEJO HONDUREÑO DE LA EMPRESA PRIVADA: (COHEP)

COHEP was established in 1968 with the stated objectives of defending and promoting the free enterprise system, insuring the democratic system, social well being and the economic development of Honduras. It represents the general interests of most private sector organizations and has representatives from more than thirty organizations.

The Consejo was formed in response to the needs of the private sector in Honduras, which tends to be fragmented, individualistic and poorly organized. The Honduran private sector recognized this weakness, and COHEP was created to help unite the private sector so that it could reach a consensus and speak with one voice on national economic policy issues.

Building upon the potential of COHEP as an influential business organization in economic policy decisions, and given that the Honduran government now views COHEP as a legitimate representative of the private sector on policy issues and COHEP's continued support from the Honduran private sector, USAID has chosen to provide assistance to COHEP under project #522-0325.

The purpose of the project is to further strengthen the Honduran capacity to formulate economic policies and administrative reforms related to the stabilization program of Honduras. It will work to strengthen both public and private sector capacities in the area of policy analysis and reform. The project was approved in 1987 and has a PACD of August, 1994. The total USAID contribution to the project is a grant of \$12 million (of which \$7 million are directed to the public sector and \$5 million to COHEP). The GOH/private sector will contribute an additional \$3 million over the life-of-project.

7. FEDERACION DE ASOCIACIONES DE EXPORTADORES AGROPECUARIOS Y AGRO INDUSTRIALES DE HONDURAS: (FEPROEXAAH)

FEPROEXAAH is a non-profit private sector organization incorporated in Honduras in 1984 for the purpose of increasing exports of non-traditional agricultural and agroindustrial products. Under an agreement signed with the GOH in August 31, 1984, it assumed responsibilities for implementing the agricultural component of the Export Development and Services project (USAID # 522-0207).

Starting with a nucleus of four member associations its membership increased rapidly to 27 associations of small farmers and producer's cooperatives growing for the most part non-traditional agricultural products with export potential. Each association is represented on FEPROEXAAH's Board of Directors which is the governing body of the organization. An Executive Council selected by the Board of Directors assists executive management with policy decisions.

FEPROEXAAH was expected to assist small farmers to expand the cultivation of non-traditional agricultural products through the provision of technical assistance and access to a line of credit established by the project. Other objectives included sponsoring of specific crops or commodity systems, seeking investors for non-traditional agricultural and agroindustrial projects, promoting and facilitating exports, and serving as the private agribusiness sector spokesman in policy negotiations with the GOH aimed at improving the export climate.

A mid-term evaluation of FEPROEXAAH, which was conducted in September 1987, indicated that FEPROEXAAH's performance had fallen far short of expectations. Its impact on non-traditional agricultural exports was minimal, and the proliferation of producers' associations had fostered many associations which existed in name only. There were no clearly quantifiable goals and objectives, efforts lacked focus, and basic international financial and operational controls had not been established. Management was weak and ineffective and no viable plan to achieve financial self-sufficiency had been developed.

Corrective actions were initiated by the Mission in January 1988. These involved the strengthening of the Executive Council with independent and experienced businessmen and other qualified individuals, a change of management and staff, and a consolidation of FEPROEXAAH's activities. Goals will be redefined with emphasis on exports, and production assistance will be limited to export marketable products.

8. FEDERACION DE ORGANIZACIONES PRIVADAS DE HONDURAS:
(FOPRIDEH)

The principal ESF (local currency generation) funded grant project (522-ESF-0280) was authorized on March 29, 1985, for a period of five years and a local currency funding level of Lps. 10 million. The purpose of the project is to create, through a PVO "umbrella organization", a mechanism to evaluate and fund development projects of individual PVOs active in development endeavors in Honduras, while simultaneously providing assistance in institutional strengthening to both FOPRIDEH and the PVO community.

A separate three year, \$500,000 grant agreement was also signed with FOPRIDEH in 1985 (#522-0266) for the purpose of providing support for the FOPRIDEH Institutional Strengthening Project, specifically in terms of covering the U.S. dollar costs of a long-term technical advisor (\$330,000), short-term technical assistance for six months (\$60,000) and for short term training requirements (\$110,000).

An evaluation carried out in early 1987 documented the project's impact in establishing a management structure to provide technical assistance services and subgrants to its client private development organizations (OPDs). FOPRIDEH has in place an effective subgrant selection process, and has accomplished many project objectives in terms of strengthening itself as a PVO umbrella organization, providing continuity and growth for OPDs and their development strategies, finding jobs, increasing incomes, and improving the quality of life of project beneficiaries.

Nonetheless, the evaluation pointed out that FOPRIDEH and its member groups are not in position to become self-sufficient institutions. The project envisioned that self-sufficiency would be achievable by the end of the project in March, 1988. To date, FOPRIDEH is totally dependent on AID as a source of funding. The evaluation recommended that FOPRIDEH develop and establish a concessionary credit program for its client OPDs and provide technical assistance in credit management. Other recommendations included fund raising activities focussed on the U.S. and the installation of a technical data center to assist OPDs in the implementation of their subprojects.

Specifically, the FOPRIDEH role as an overall PVO federation appears to be too broad. The evaluation put forth the following observations and guidelines for Mission consideration in its continued support for PVO/NGO activities in Honduras:

In regard to institution building as an objective for USAID support of PVO/NGOs, AID should consider restricting its funding to: 1) institutions whose organizational objectives match AID's long-term developmental objectives; 2) those PVOs/NGOs who clearly have a reasonable chance of becoming self-sufficient during the period of planned AID involvement; and 3) those PVO/NGOS who can provide value-added efforts to the project (e.g. leveraging of additional funds, productivity and production potential). With respect to FOPRIDEH, the evaluation concluded that FOPRIDEH's role as an overall PVO federation should be more focused on the USAID's Action Plan objectives. Upon termination of the FOPRIDEH grant agreement, the mission should move to a more limited role with FOPRIDEH under a regular project. FOPRIDEH may become a more focused and effective organization as a credit institution for PVOs, with direct linkages to the U.S. PVO community and a capacity to leverage additional sources of funds.

Perhaps a major flaw in the design of this project was an attempt to finance institution building activities for both FOPRIDEH member and nonmember PVOs. Clearly, this has proven to be an overly ambitious and unrealistic objective given the number of adhoc PVO/NGO entities and the recurring costs associated with being a major supporter of these organizations. The majority of these PVO/NGO entities are incapable of becoming self-sustaining institutions. Thus, the Mission must decide which organizations are most relevant to the achievement of Action Plan objectives and proceed accordingly with project and strategy modifications.

9. FINANCIERA INDUSTRIAL Y AGROPECUARIA: (FIA)

The Small Business Development Project (SBD) (#522-0205) is a three year project signed in June, 1984, for the purpose of developing a source of technical and financial assistance for Honduran small- and medium- size enterprises (SMEs), thereby increasing productive employment in these businesses. The project helped establish a development-oriented business finance company, FIA, and a complementary business assistance system (BAS) to achieve, over an eight year period, the project objectives of: 1) creating 2,000 new jobs; and 2) generating \$25 million in value-added to production within the SME sector. It was projected that the employment and production objectives were achievable through the provision of 170 loans to SMEs and technical assistance to 525 enterprises. The project is being implemented jointly with the National Association of Industrialists (ANDI) and the Program for Small and Medium Enterprises (PYME).

Project start-up bottlenecks were resolved in March '85, with the establishment of a project coordinating committee. As a result of project modifications, ANDI was named to coordinate the BAS and PYME was to carry out the activities of the BAS.

FIA, the financial arm of the project, is owned by five commercial banks which also serve on the Board of Directors. The banks have contributed capital to FIA totaling 5 million Lempiras. In addition, the project is funded with GOH counterpart derived from ESF local currency generations of 4.4 million Lempiras, \$2 million in AID loan funds and \$6 million in grant funds. An evaluation of the project was carried out in November '86, 1 1/2 years after project start-up, which showed the following primary accomplishments:

- FIA had made loans to 35 SMEs.
- FIA and private firms provided technical assistance to 15 of FIA's loan clients.
- PYME approved 20 small business development grants to 13 management assistance organizations.
- PYME generated 4 clients for FIA loans and 3 for other outside sources of credit.
- 51 courses benefitting 1,085 participants were sponsored by PYME (with the majority provided by INFOP and management assistance organizations receiving project grant financing).
- Training was delivered to 199 SMEs through INFOP, and 772 SME owners and employees through PYME financed programs.

The evaluation pointed out that although FIA and PYME have been operational for only a short period, there are indications that both organizations are having a positive effect on employment generation, SME income and earnings, and in strengthening the SME sector both financially and technically.

The evaluation recommended the following considerations for further modification to the project in order to better achieve project objectives and lay the foundation for future project assistance.

- In place of the FIA/PYME technical assistance relationship, FIA is better able to evaluate the services and needs of its clients by using its own staff or with contracted assistance.
- PYME's natural focus is on smaller, microenterprises, and should therefore concentrate its efforts within this sector.
- AID should reduce its role in direct project management, in favor of greater involvement by the Board of Directors in supporting the project and in establishing better linkages with the SME sector.

- FIA should only extend loan activities and technical services which can become self-sustaining.
- FIA should strive for joint financing arrangements with FIDE, and
- PYME should encourage and select those domestic and export-oriented SMEs which can generate jobs and attract equity investments.

Small Business Development II (#522-0241)

The project is for three years with LOP funding of approximately \$20 million, and is scheduled for authorization in June of 1988. Based on the results of the SBD project and a recent intensive review conducted after the PID, the Mission has proposed some key changes to the design of the original project. The new project strategy will focus on 6 entities, three of which (BANCAHSA, Banco de Occidente and FIA) will be responsible for a broader-based delivery of financial resources and services to the SME beneficiary group. FIA will also continue to provide and contract out technical assistance to its client population. The new project will draw upon the combined expertise and technical resources of ANDI/PYME, FUNADEH of ASEPADE to address the technical and training needs of SMEs and lower-level micro-enterprises. The project will thus support existing programs, provide a broader array of services and strengthen and increase the capabilities of the key technical assistance entities.

In line with the SBD project evaluation recommendations, a project contract unit will be financed to: 1) provide supplementary services to the USAID in project monitoring, reporting and administration, and 2) develop assistance and evaluation capabilities in the areas of credit, training and specialized technical skills.

10. FONDO GANADERO DE HONDURAS, S.A. de C.V.

The Fondo Ganadero de Honduras (FONDO) was incorporated on August 31, 1984, as a private sector for-profit company of mixed capital (State and private). It was created as an instrument for implementation of the Small Farmers Livestock Improvement Project (USAID Project #522-0209). The purpose of this project is to increase both the productivity and number of small livestock operations, and consequently to increase the size of the National Herd and the supply of livestock commodities.

The FONDO's capitalization plan includes contributions from USAID (\$13 MM - \$3MM grant and \$ 10MM loan), the GOH(\$ 1MM contributed in the form of two farms and breeding stock), and the Honduran private sector (\$3.5 MM).

The FONDO's mandate is to make profits as a private sector entity while at the same time performing a social function in creating economically viable small to medium scale cattle production enterprises. It carries out this mandate primarily through an in-kind animal lending program under which the FONDO retains ownership of the animals and provides technical assistance, supervision and a small amount of complementary credit to the production company. The production company in turn provides land, labor and ranch management. Profits are shared annually: 55% for the production company and 45% for the FONDO. The FONDO provides breeding stock and production inputs through support units which include two farms under its direct management, a mineralized salt production and sales unit and a veterinary supply unit.

An interim evaluation conducted by Chemonics in June 1987 indicated that the current financial condition of the FONDO was precarious and recommended a series of corrective actions. The financial problems were attributed primarily to the fact that the Lps. 1,763,000 capital subscription on the Honduran side fell far short of the Lps. 4,500,000 projected in the capitalization plan. Another problem was that the criteria for the selection of program participants resulted in administrative and technical assistance costs that were too high and in production enterprises too small to be economically viable. The corrective actions recommended included an expansion of the animal lending program and mineral salt production, a change of criteria for selecting production enterprises, and a limitation of objectives of the two farms owned by the FONDO.

11. FUNDACION HONDUREÑA DE INVESTIGACION AGRICOLA: (FHIA)

FHIA, the implementation instrument of the Agricultural Research Foundation Project (USAID # 522-0249), is a private nonprofit foundation established on May 15, 1984 by its three founders: GOH, USAID and United Brands Company. United Brands contributed its research facility at La Lima, USAID provided a \$20MM grant to support basic core research and dissemination of results for ten years, and the GOH, through the Ministry of Natural Resources, committed additional funding and assisted the foundation in obtaining a national charter.

FHIA's goal is to increase the productivity level of Honduran farmers and to generate additional employment by: (a) conducting research on traditional and nontraditional crops, (b) operating the Center for Tropical Research of Honduras at La Lima, (c)

advising agricultural extension services and farmers, (d) stimulating agricultural development, and (e) operating international research programs.

An interim evaluation conducted in September 1987 by Winrock International Institute for Agricultural Development, was highly complementary of FHIA's performance to date. The evaluation pointed out, however, that the original funding was totally inadequate for the scope of effort expected, that FHIA's mandate was too broad to protect the institution from having to accept assignments indiscriminately, and that the system of governance was cumbersome and did not clearly exercise responsibility for the policy-making process. The evaluation further concluded that FHIA's long term viability depended on developing domestic support from a constituency of producers and other interested parties, and that the staff was of high caliber but insufficient in number. Recommendations included a redefinition of FHIA's mandate with emphasis on research for export crops, prioritization of research activities, front-loading of USAID funds for use in 1988 and 1989, establishing an endowment with assistance from the GOH and USAID/Honduras, and establishing an aggressive fund-raising program.

12. FUNDACION PARA LA INVESTIGACION Y DESARROLLO EMPRESARIAL:
(FIDE)

FIDE began operations in November of 1984, and was established with the goal of stimulating new export earnings from and investment into Honduras. It is a major component of project # 522-0207, which also includes an agricultural component (FEPROEXAAH) and a policy component with the government through the Ministry of Economy.

The project started up in August 1984 and the PACD is August of 1989. The total USAID commitment to the project is equal to \$ 6.4 million, and the equivalent of \$7.0 million in local currency. Originally, the project was scheduled to be financially self-sufficient by the PACD in 1989.

The evaluation carried out on FIDE in 1987 recommended that FIDE increase its activities in investment promotion given the potential benefits that such an effort can yield. The report also recommended that FIDE absorb its overseas marketing activities rather than contracting out these services. Additional comments were made in the area of export processing zone development, financial intermediation and some of FIDE's other activities. Finally, the issue of self sufficiency was reviewed, and it was concluded that under the present conditions, self sufficiency is not a valid goal for FIDE.

Overall, the evaluation gave FIDE high marks for past performance, particularly in the credit and technical assistance areas, and upon implementing the recommendations in the evaluation, FIDE is expected to play an even greater role in the area of job creation and foreign exchange generation.

13. FUNDACION PARA EL DESARROLLO DE HONDURAS: (FUNADEH)

FUNADEH is a nonprofit, private development foundation established in February, 1983, to promote the economic and social development of communities and organized social groups of scarce resources, and to coordinate rational efforts to diversify economic and social development programs. In early 1985, FUNADEH received a \$1 million, three year grant (#522-ESF-0263) to establish a credit program for, and provide rudimentary business skills to, the small scale enterprise (SSE) subsector in San Pedro Sula. The project received counterpart funding from PADF, \$33,000, the Inter-American Foundation, \$116,000, the IDB, \$500,000, and is expected to receive \$175,000 from its membership.

A midterm evaluation of the project was conducted in February, 1985, which determined that FUNADEH was 1/3 of the way toward achieving self-sustainability, with a good potential to do so in the next few years. Jobs were being generated at a rate of 1.08 per loan received, at an average of \$350 per loan. SSEs that had received loans under the project were experiencing increased sales on the average of 17%.

By the end of the evaluation period, FUNADEH had 135 members and had raised contributions of \$35,115 from its membership. FUNADEH's loan selection procedures have been good, reflected in a loan delinquency rate of only 2.3%. PADF's involvement in the project (financed under a separate OPG) has helped speed the initial implementation process.

The evaluation sited the need for FUNADEH to base its client selection more on those SSEs with good growth and marketing potential as a means of strengthening viable entities, and allowing FUNADEH more time to consolidate its strengths as a financially viable, private sector institution.

14. GERENTES Y EMPRESARIOS DE HONDURAS: (GEMAH)

The purpose of this three year grant project is to establish GEMAH as a self-financing institution that is capable of providing high quality management training services for its members and for Honduran managers in general. The American Management Association (AMA) is providing a major portion of the project's technical assistance services, training GEMAH's

instructors, and supplying training materials. GEMAH's office and training facilities are located in San Pedro Sula. Total funding for the project is \$1 million and L. 480,000 in local currency.

An end-of-project evaluation was carried out in 1987, which focused on GEMAH's performance vis-a-vis project objectives in terms of self-sufficiency, quality and quantity of management training, economic returns to business beneficiaries, responsiveness to private sector training needs, dependency on outside technical assistance resources, and the capacity for increasing small business development.

Overall, GEMAH is a well functioning institution that has made significant progress in three years. The private sector's view of GEMAH is very good, particularly for AMA training programs which address the needs of medium-size firms and multinationals. Financial self-sufficiency may be attainable by GEMAH, but for now there is a fragile balance between burgeoning institutional costs and existing sources of income.

On the minus side, the evaluation pointed to the over-dependence on one course (participatory MBO), and heavy reliance on the AMA for the development of curriculum and training materials. These issues also relate to the question of future self-sustainability for GEMAH. As a means to better achieve this objective, GEMAH is encouraged to develop an independent capacity to acquire new training courses, undertake small business training alternatives as well as establish an asset base to alleviate operational costs and generate alternative sources of income.

GEMAH has attempted to address these issues by developing small and microenterprise training activities patterned after the successful Carvajal Foundation in Colombia. GEMAH is also looking to a variety of technical assistance packages to assist in carrying out its training mandate within the private and public sectors.

IV. CONCLUSIONS AND RECOMMENDATIONS

A. Introduction

In the preceding chapters of this report we have presented a number of specific conclusions and recommendations which were the result of evaluations and studies reviewed as a central part of this assignment. Most of these conclusions and recommendations were made by the various consultant groups that carried out the evaluations and other studies. A few are our own; specifically, the interpretation of results reflected in the charts and matrices presented in this chapter, as well as the analysis of the economic environment discussed in the Background section of this report. These together could be characterized as conclusions and recommendations pertaining to the "parts" of the program. Following, in this chapter, we summarize our conclusions and recommendations on the "whole" of the program. Properly, the overall assessment of the support role of private sector in contributing to progress under key growth and equity objectives.

B. The Explicit and Implicit Strategy

The AID/W committee that reviewed the Mission's Action Plan for FY 1988 - 89 questioned why the Mission had not selected strengthening the private sector as a discrete objective of its action plan. The Mission responded that "it views the private sector as a means of achieving program objectives" and declined to formulate a private sector strategy per se. Implicit in this response, a rejection of institution building efforts could be read; as well as a maximization of the use of institutions for the channelling of resources to various beneficiary groups and a minimization of the resources allocated to institutional strengthening or the designation of the institution as the direct beneficiary. In a majority of cases, however, the opposite has been true. Institution building and strengthening in direct support of private sector initiatives has taken precedence over the use of resources to achieve specific program targets particularly in the early years of a project, for example in the area of export and employment generation.

The valuable support of the private sector to the Mission's program has been well reciprocated by Mission support to private sector institutions and shared objectives, as for example in the case of FIDE and COHEP. We find this collaboration to have been very valuable and productive and it has created a sound basis for long lasting progress towards mutual growth and equity objectives.

Some of the implications of this dual approach are discussed in

the following pages, and together they represent our assessment of the explicit and implicit strategy pursued by the Mission. The Mission should give explicit recognition to the dual thrust of the strategy and establish objectives and targets that will reflect accomplishments in the areas of strengthening private sector institutions and the private sector itself. Examples of these types of accomplishments are readily found in the skills development projects and in the Mission's work with guild associations (CCIC and COHEP).

By explicitly recognizing that the program has been partially-but importantly-targeted at the support of the private sector and institution building efforts as a first indispensable phase, the Mission will be better able to understand and explain the paucity of results in achieving stated program objectives in the development of exports and employment.

Such efforts toward institution building and skills development in the private sector are entirely justified and consistent with diagnostic findings by various consultants that describe the Honduran private sector and its institutions as weak, fragmented/regionalized, and lacking in skills relative to the private sector of other countries in the region (see Annex III), and which attribute to this condition, the country's relative backwardness.

C. Specific Conclusions and Recommendations

i. The contribution of the private sector

Table II is designed to show the role of each of the private sector organizations in achieving the relevant Action Plan objective. It is presented to help summarize the information presented in Chapter III, and at the same time, help the reader follow our conclusions and recommendations which are based on this information. For each institution, its contribution to the relevant Action Plan objective is noted as a primary contribution (major contribution in achieving the Action Plan objective) or as a secondary objective (contributes to the achievement of the Action Plan objective to in a lesser degree).

TABLE II

CONTRIBUTION TO ACTION PLAN OBJECTIVES

	AGRICULTURAL PRODUCTION	INCREASE EXPORTS	FAMILY PLANNING	HOUSING IMPROVEMENTS	PERSON-YEARS EMPLOYMENT	OTHER PRIMARY OBJECTIVE
ABEPAGE					P	
ALANDE						#12
AEONPLAFA			P			
ADIC		S			S	
ADZERH					S	
ADHEP		S			S	#14
AEPRDEYAAH	P	P			S	
AEPRIDEN					S	
AEIA					P	
AEVDO GAN.	P				S	
AEIA	S	S			S	
AEIDE		P			S	
AEVADEH					P	
AEEMAH					S	
S • L's				P		

P = Primary Objective
 S = Secondary Objective
 #12 = Improve educational opportunities
 #14 = Strengthen Democratic Institutions

In utilizing the private sector as a "means" for achieving its Action Plan objectives in Honduras, USAID capitalizes on certain strengths offered by some private sector organizations. The consulting team has identified five contributions made by the private sector to USAID's program to varying degrees. These are: (1) outreach or capability of delivering technical assistance, training or credit to specific private sector targets, (2) political/cultural acceptance and local environment know-how that enables the private sector organization to operate more effectively than USAID could by itself, (3) leveraging of local resources, including assets such as land or financial capital, human resources infrastructure organization, etc., (4) the potential of becoming financially self-sufficient and continuing programs initiated with USAID's assistance long after termination of such assistance, and (5) advocacy for shared objectives between USAID and the institutions improving chances of achieving successful results. Table # III depicts the degree to which the 14 private sector organizations have contributed towards USAID's Action Plan objectives.

In order to maximize USAID's benefit from working with private sector institutions, their selection should be based on the five identified contributions and the degree to which an institution is capable of making such contributions.

2. Risks of over dependence on USAID financial support

A considerable amount of USAID's effort is directed at strengthening private sector organizations in order to maximize their contributions towards Action Plan objectives. While strengthening such institutions enhances their ability to serve the nation, overdependence on USAID funding and support may endanger their very survival in the long run.

Rapid growth of institutions carrying out USAID projects, may result in inflated staff and overhead costs which may be difficult to cut back upon termination of the project. Unless such institutions can develop alternative sources of income or create a salable service or product, their continued existence is threatened.

Information regarding the current source of funding and origin of the institution is presented in Table IV. In determining the source of funding, the classification is based on where the majority (50% or more) of the institution's revenues or contributions come from. In determining the origin of the institution, two categories were considered, if the organization existed prior to USAID's financial support, or if it was created to help achieve a USAID objective.

TABLE III

PRIVATE SECTOR: CONTRIBUTION TO USAID PROGRAM

	OUTREACH	POLITICAL/ CULTURAL ACCEPTANCE	LEVERAGED RESOURCES	CONTINUITY POTENTIAL	ADVOCACY FOR SHARED OBJECTIVE
ASEPADE	H	H	L	H	H
AVANCE	H	H	L	L	H
ASHONPLAFA	H	H	L	H	H
CCIC	L	H	H	H	H
CADERH	H	H	L	L	H
COHEP	L	H	L	H	H
FEPROEXAAH	L	L	L	L	H
FOPRIDEH	H	H	L	L	L
FIA	L	H	H	H	H
FONDO GAN.	H	H	H	L	H
FHIA	H	H	H	L	H
FIDE	H	H	L	L	H
FUNADEH	H	H	L	H	H
GEMAH	L	H	L	L	H

L = Low or no Institutional Contribution to Mission Program

H = High Institutional Contribution to Mission Program

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As discussed later in Section C-8 of this chapter, eight of the fourteen institutions analyzed have a low probability of achieving self-sufficiency by the PACD, even though self-sufficiency is a stated objective of these projects. This clearly demonstrates the difficulty of helping these institutions become self-sufficient. The consequences of termination of major USAID supported projects should be taken into consideration in designing such projects and a mechanism should be devised that will assure the survival of the implementing private sector institution when this is determined to be an implicit goal of USAID's support.

TABLE IV
ORGANIZATIONAL FUNDING AND HISTORY

	<u>FUNDING</u>	<u>ORIGIN</u>
ASEPADE	AID	Existing
AVANCE	AID	Existing
ASHONPLAF/	AID	Existing
CCIC	AID	Existing
CADERH	AID	Created
COHEP	AID	Existing
FEPROEXAAH	AID	Created
FOPRIDEH	AID	Created
FIA	AID	Created
FONDO GAN	AID	Created
FHIA	AID	Existing
FIDE	AID	Created
FUNADEH	AID	Existing
CUMAH	AID	Existing

Funding: 50% or more of current revenues

Origin:

Existed prior to USAID's financial support.

Created to help achieve a specific objective.

=====

3. Utilization of USAID resources for institution building purposes

Recent evaluations of the "flagship" private sector entities, including FIDE and FEPROEXAAH, indicate that overcoming obstacles to increasing exports requires a longer time frame than anticipated during project design. In addition, an inordinant amount of project funds have been utilized to strengthen these institutions, compared to resources that might have been applied

in a more direct manner toward the achievement of the export objective had there been existing alternatives available to the Mission at the time.

Although the results of institution building efforts have to some degree been mixed (moreso with FEPROEXAAH), this initial phase has allowed sufficient time and resources for these entities to develop an institutional foundation and the necessary operational skills on which to base the next, more productive phase of accomplishment of Action Plan objectives.

The consultants view the experience gained by the institutions as valuable lessons learned, that will serve to better prepare them for future activities and facilitate the accomplishment of Action Plan objectives.

4. Indirect linkages between private sector institutions and Action Plan objectives

Mission support for private sector entities whose objectives are not directly linked to those of the USAID Action Plan, has resulted in slowed development within some of these entities and to some degree an initial overdependence on USAID funding. For example, GEMAH and CADERH have not as yet had a primary impact on the employment generation objective, although each achieved much within their own areas of concentration. Likewise, FOPRIDEH has not been able to help fully establish PVO activities which are self-sustaining and which contribute directly to Action Plan objectives.

The consultant's findings show, however, that what seems to be an indirect relationship between the activities of these organizations and Action Plan objectives, may be a necessary intermediate step for the consolidation and synthesis of development strategies. This consolidation stage will enable the Mission to better direct resources to those private sector entities whose longer term objectives are directly linked to the Action Plan.

The consultants recommend that the Mission review the basis for their support to PVOs/NGOs which contribute directly to the achievement of Action Plan objective and proceed to make project modifications accordingly. A major conclusion of the Davis report, and one which we strongly support, is that the Mission is clearly working with too many PVO/NGO's and that it is desirable to scale back in this area. This calls for concentrating on those organizations that directly contribute to Mission Action Plan objectives. It is also clear that many of the PVO/NGO's currently receiving funds (directly or indirectly) are not going to be able to survive without USAID funding and, therefore, USAID will have some hard decisions to make should it decide to

consolidate its efforts. In an effort to concentrate the number of PVO/NGOs that USAID works with, the issue of self-sufficiency must be raised. It is desirable to select NGO/PVOs that can reach a level of self-sufficiency and in cases where self-sufficiency is not possible, recognize this at the beginning (see conclusion on self-sufficiency). Finally, if the Mission is in effect using a Grant mechanism in those cases where it is really just seeking a service, an alternative "contracting" mechanism should be explored as suggested in the Davis Report.

5. Adequacy of resources

To determine if planned USAID resources are sufficient to stimulate significant levels of private sector led growth, it is necessary to do so as a function of program results, or what has been accomplished thus far with past levels of resources. Unfortunately, results are dependent on many factors besides resources. Results are dependent on internal or organizational factors (competence of management, etc.) or external resources (macroeconomic conditions, infrastructure, etc.). Further complicating the issue is that in the past, resources have been assigned based on availability rather than on need or capacity for utilization of these funds assuming of course that the institution has the potential to perform which can be measured by how well it scores in the five areas shown in Table III. This has resulted in inconsistent levels of funding as can be seen in the Table on USAID obligations in Chapter II Section B of this report.

In determining the adequacy of resources, the Mission must constantly undergo a reexamination of its strategy, and specific mechanisms, to see if the strategy is adequate, and if existing mechanisms should be dropped (funding eliminated), further strengthened (funding increased), or if new mechanisms should be adopted in order to insure that the objective will be achieved. If the mechanism is to succeed, resources must be applied in sufficient, and equally as important, in consistent amounts over a predetermined time frame. For example, in determining ways to insure that the employment objective is met, new mechanisms have been introduced; an investment promotion effort and the development of free zones. If the mechanisms are to develop and succeed, consistent and appropriate levels of funds will have to be made available over time for these mechanisms.

6. Recommended actions which could be considered to increase private sector linkage to Action Plan objectives

It is very difficult for the team to determine if the chosen links are optimal in helping the Mission achieve the Action Plan objectives given the scope of our assignment. In analyzing the

linkages however, it was apparent that there were no contradictions in the linkages that currently exist. On the other hand, the team did not feel that there existed obvious synergies among the different linkages that would contribute to achieving a better utilization of overall Mission resources.

In an effort to increase the linkages that should result in a greater potential success in achieving the overall objectives, the Mission should consider the following: a) Seek out only those institutions that will provide value added efforts to the project (institutions that score high in the five contribution areas shown in Table III); and, b) Make a clear determination if the particular effort or program is to outlive the terminal funding date for the project. Only when it is believed that the program should continue on without USAID support will long term sustainability, or an alternative source of funds, become an issue.

The team also felt much greater impact could be achieved from existing programs if the Mission were to establish a mechanism to strengthen the synergies among the existing programs. While it appears that there has been much progress in this area in recent months, improving the synergies would strengthen the overall private sector linkages, particularly with regards to the agricultural, export and employment objectives.

7. Niche analysis for small business - oriented institutions

It is apparent from project design information and recent evaluations that there is a considerable amount of overlap in the objectives of several USAID supported institutions. Most notably in the areas of micro and small enterprise development, several organizations appear to have a similar focus in the provision of technical assistance, training and credit.

Although ASEPARE/Acción AITEC have concentrated on the micro-enterprise sector, GEMAH is also considering a move to this area as a means of diversifying its training portfolio. Moreover, the ANDI/PYME group appears to be focused on small and micro enterprises, while FUNADEH is also developing sub-borrowers and providing other assistance to small business entrepreneurs.

The consultanting team assumes that there is sufficient space within each sector of small business development to allow these entities to work independently and effectively. However, in an effort to foster collaboration and complementarity of objectives, we recommend that the Mission review the strategy and focus of each of these entities to ensure coordination, particularly in light of the upcoming Small Business Development II project.

8. Appropriateness of financial self-sufficiency

The concept of "self-sufficiency" was found to be ambiguous in that among the institutions, and even within USAID itself, there exist different definitions as to what is meant by this term. Therefore prior to entering into an analysis of the overall issue, it is important to define what is meant by self-sufficiency. In its most restricted form, self-sufficiency would be achieved by an institution only if it could meet its revenue needs through the sale of its own services or products without any external support or subsidies. Under this very limiting definition, it is clear that very few of the fourteen institutions shown in Table III would have a potential for achieving self-sufficiency.

In a broader sense, institutional self-sufficiency can be defined as being able to continue to provide or perform a particular service, without jeopardizing quality, after USAID funding is terminated. This definition, would allow for a substitution of outside funding sources once USAID stopped its funding, and focuses more on the institution's potential for longevity using other resources, but not necessarily internally generated income or resources.

In classifying a company's "continuity potential" as shown in Table III, the latter definition was used, and a rating of High or Low was made based on the institutions "continuity potential" given the institutions situation at this point in time, and assuming that no further USAID funding would be available after the PACD. Even using this broader definition for self-sufficiency, eight of the fourteen institutions received a rating of low (the team did not feel that the institution had "continuity potential" by PACD).

Of these eight institutions, some are low because of a failure in the projects' management or other project input to improve the projects continuity potential. For example, the Fondo Ganadero project, which was designed as a for profit entity, is currently in poor financial shape, and its prospects for long term continuity are currently low. Recent restructuring efforts, if successful, will improve the Fondo's chances as achieving self-sufficiency by 1994.

As pointed out in the Mission review process, almost half of the fourteen institutions are recent USAID creations, and the majority of the others only recently received substantial new funding for new or expanded activities, and therefore long term self-sufficiency should not be apparent at this state. The consultants agree with this point, however self-sufficiency by project PACD is a stated objective for most of these projects. This same problem is being faced by USAID Missions in other countries where pressure is being placed on local institutions to

achieve self-sufficiency when it is still too early or not possible given the institution's objective as discussed below.

On the other hand, there are several projects that because of the role they have been asked to carry out, and because of current conditions in the country, do not have a chance for long term continuity without continued USAID support and/or an eventual endowment. For example, FIDE is carrying out a developmental role by providing technical assistance to local producers in production and marketing, by providing technical assistance and/or helping to direct credit to potential exporters, and now by undertaking an expanded role in investment promotion. It generates income from its' credit activities and limited income from its technical assistance activities, however the income generated does not cover the cost of current activities, let alone the cost of an expanded role in investment promotion. FIDE's hopes of securing sources from other sources are limited, and yet it is providing an essential service to the country.

It is clear that for FIDE, as well as for FEPPONXAAH, that self-sufficiency is not achievable, and therefore not a valid objective, unless long term continuity is going to be achieved through USAID support (see self-sufficiency section of the FIDE evaluation). It is not necessary for these institutions to gain self-sufficiency by the PACD if the Mission is satisfied with the achievements of each institution, and is willing to fund them for an additional period of time. However, at some point the Mission will be forced to make a decision on whether or not these programs should continue to provide a service without USAID support or if there is no longer a need for the service, and therefore the institution should close down or diversify its services into other areas where it might achieve self-sufficiency.

As pointed out in Sections C2 and C6 of this Chapter, a clear determination should be made during the project design stage if the program is to outlive its terminal funding date, and what the impact on the project, and the service or product that it delivers, will be. An up-front assessment of the projects continuity potential given the type of service it delivers is necessary so that institutions that can achieve long term self-sufficiency can work toward that goal. At the same time, in projects where self-sufficiency is not compatible with its objectives, this should be recognized at the outset so that valuable resources (USAID and recipient organization) are not wasted trying to achieve this goal.

ANNEX I

Scope of Work

ANNEX I

Scope of Work

WORK STATEMENT

I. BACKGROUND

During the review of the FY 1988/89 Action Plan for USAID Honduras, AID/W again endorsed USAID's perspective on the private sector's role as an essential means to achieving Action Plan objectives rather than a discrete objective unto itself. A decision was reached to submit a private sector support assessment with the Action Plan scheduled to be submitted in April/1988.

II. OBJECTIVE

The objective of the work called for herein is to help USAID/Honduras assess the role of the private sector (institutions, entities, mechanisms, processes, finances, and resources) in achieving its program objectives. Emphasis will be on the private sector's role in helping to meet the agricultural production, export, and employment objectives. This assessment will be completed and final report will be submitted in March 1988.

USAID's program objectives are as follows:

- Increase agricultural production by \$360 million from 1985 through 1990.
- Stabilize financial structures: Substantially improve macroeconomic performance from 1985 through 1990.
- Promote \$370 million in export earnings from 1985 through 1990.
- Increase access to voluntary family planning services: Increase contraceptive prevalence from 35% in 1985 to 45% in 1990.
- Improve health and health services: Increase life expectancy from 61 years in 1985 to 65 years by 1990.
- Reduce infant mortality from 70/1000 in 1985 to 60/1000 in 1990.
- Improve housing: Construct 6,435 new homes, and improve 19,649 existing homes from 1985 through 1990.
- Improve educational opportunities: Increase the proportion of primary school students completing the sixth grade from 45% in 1985 to 70% in 1990, while reducing costs per graduate from \$612 to \$550.
- Increase participant training: 2,100 Hondurans have educational opportunities in the United States' democratic environment from 1985 through 1990.

- Other: Generate 400,000 person-years of productive employment from 1985 through 1990.

The assessment basically will be a compilation of the results of several evaluations, assessments, strategy pieces, and design efforts already completed or underway. These include:

- Agricultural Production Strategy
- Employment Strategy
- Credit Dilema Study
- Contracting Out Study
- Agricultural Research Foundation Evaluation
- FOPRIDEN Evaluation
- CADERH Evaluation
- Evaluation of ASHONPLAFA (decentralization/financial assessment)
- Small Business Development Eval.
- Training Needs Assessment
- PID for Small Business Devel. II
- Assessment of Mission's Work with POVs and NGOs
- Export Strategy Assessment
- Title I and II Evaluation
- ROCAP Capital Markets Study
- Small Farmer Livestock Evaluation
- Export Development and Services (FIDE/FEPRO) Evaluation
- FUNADEH Evaluation
- GEMAH Evaluation
- Survey and assessment of other family planning organization and programs
- CAPS Evaluation
- Export Development and Services Evaluation
- PID/PP for Health Sector II

These reflect a large body of information that has been gathered or will be available for review. Therefore, few if any meetings are expected to be scheduled with private institutions in Honduras.

Some of the private sector organizations with USAID has worked or plans to work to achieve its objective are:

Foundation for Export Investment and Development (FIDE); Federation of Agricultural Producers and Exporters Association of Honduras (FEPROEXAAH); Foundation for Business Research and Development (FIA); Honduran National Development Foundation (FUNADEH); Agricultural Research Foundation (FHIA); Honduras Association of Management and Entrepreneurs (GEMAH); Honduran Advisory Center for Human Resources Development (CADERH); University of San Pedro Sula; Honduran Family Planning Association (ASHONPLAFA); Honduran-American Chamber of Commerce; Cortes Chamber of Commerce; One-stop Investment Center for Export Document Processing (CENTREX); National Council for Export and Investment Promotion (GONAFEXI); Zamorano; Honduran Council for Private Enterprise (COHEP); Institutional Strengthening (ITEC); Association for Socio-Economic Promotion and Development (AVANCE); Honduras National Association of Industrialists (ANADI/PYME); Acción International (ACCION/AITEC); Ateneo de la Agro-Industria (ADAI) Central America Peace Scholarships (CAPS); Cooperative for American Relief Everywhere (CARE/CARITAS); Union of Agricultural Services Cooperatives (UNIOCOOP); Federation of Savings and Credit Cooperatives (FACACH); Directorate for Cooperative Promotion (DIFOCOOP); Federation of Housing Cooperatives Vermont Partners Savings and Loan Associations using AID's Housing Guarantee, Federation of Housing Cooperatives (FEHCOVIL); Environment Association of Honduras (AHE); Export Processing Zones, Federation of Private Development

Organizations of Honduras (FOPRIDEH); Honduran Foundation for the Rehabilitation and Integration of the Handicapped (FUHRIL).

In addition to specific project documents, the Honduras focused documents which form the bases for USAID private efforts and which should be reviewed are:

1. Private Sector Strategy
The 1984 Country Development Strategy Statement and November 1984 SPS addendum, which concentrated private sector efforts in three areas: (1) promotion of nontraditional exports; (2) support for small- and medium-scale enterprise; and (3) assistance in the divestiture of GOH productive enterprises.
2. The Action Plan submitted in Fiscal Years 1986 and 1987, which established the Mission's objectives and detailed the importance of the private sector as a means to meeting those objectives; and
3. Privatization Plans in the Annual Budget Submission prepared in Fiscal Years 1986 and 1987.

The contractor also shall be familiar with the recommendations of the National Bipartisan Commission on Central America (Kissinger Reports/Jackson Plan) and the Caribbean Basin Initiative as they relate to the private sector.

III. STATEMENT OF WORK

Using existing studies and evaluations, the Contractor will develop a report which will:

1. Review the role of Honduran private sector organizations and individual enterprises, financing and/or other private sector resources in achieving each relevant Action Plan objective. Determine to what extent these private sector resources individually and collectively have contributed to or are linked to achieving our targets, i e., what is the private sector link between Mission objectives and our portfolio and projects. Recommend actions which USAID might consider supporting to increase the private sector linkage to the achievement of Action Plan objectives. The report also should make a judgement as to the adequacy of planned USAID resources to stimulate significant levels of private sector-led growth and permit the future development of the private sector with its own resources.
2. Analyze and evaluate the consistency of project actions for effectively using the private sector in advancing achievement of Mission objective. The report will also make explicit the principles on which the Mission's actions with the private sector are based and evaluate the effectiveness of those actions. As a product of this line of work, the report will make concrete recommendations on actions USAID should take to increase the contribution of the private sector to Mission objectives.

3. Describe and differentiate among private sector organizations that USAID is working with (profit, nonprofit, PVO, etc.), and what might be the best way to support these organizations. Specific comments will be made on the following.

Who are the current members or individuals that form the Board of Directors for each of these institutions, whom they represent, and what is their relationship with their constituency.

The degree to which the public sector controls or has influence over each organization and its resources.

4. Review the appropriateness of a financial self-sufficiency goal for the private sector organizations being assisted by USAID. This section will include the Contractor's comments on the feasibility of financial self-sufficiency with and without USAID assistance. In relevant cases, comments will also be provided on what type and degree of assistance might be required by USAID in order to achieve financial self sufficiency as well as possible alternative uses for such assistance funds.

ANNEX II

Documents Reviewed in Carrying
Out the Assignment

ANNEX II

Documents Reviewed in Carrying Out the Assignment

1. Agricultural Production Strategy
2. Employment Strategy
3. Credit Dilemma Study
4. Contracting Out Study
5. Agricultural Research Foundation Evaluation
6. FOPRIDEH Evaluation
7. CADERH Evaluation
8. ASHONPLAFA Evaluation
9. Small Business Development Evaluation
10. Training Needs Assessment
11. PID for Small Business Development Project II
12. Assessment of Missions Work with PVO/NGO
13. Export Strategy Assessment
14. Title I and II Evaluation
15. ROCAP Capital Markets Study
16. Small Farmer Livestock Evaluation
17. Export Development and Services
 - FIDE Evaluation
 - FEPROEXAAH Evaluation
18. FUNADEH Evaluation
19. GEMAH Evaluation
20. Survey and Assessment of other Family Planning Organizations and Programs
21. CAPS Evaluation
22. PID and PP for Health Sector II
23. CABLE: FY 88-89 Action Plan Review
24. Private Sector Policy Dialog Project (COHEP)
25. FY 88-89 Action Plan
26. FY 89-90 Draft Action Plan

*** In addition to the above the case team also referred to project files, including agreements and quarterly reports for specific organizations or projects.

ANNEX III

Excerpt From: "Honduras Private Sector

Policy Dialog Project"

Description of the Honduras Private Sector

International Science and Technology Institute, Inc.

III. The Honduran Private Sector

The private sector in Honduras is one of the weakest in Latin America. Several factors account for this situation: a weak entrepreneurial class and the lack of a powerful national oligarchy, regional dispersion and a limited infrastructure, economic dominance by foreign-owned companies, delayed import substitution industrialization, and ethnic divisiveness.

A. Principal Characteristics

Weak Entrepreneurial Class

Unlike its neighbors to the North and West, Honduras did not develop a strong national oligarchy. During the 1800s, when other Central American countries were using national lands for coffee production by local elites, Honduran elites began a practice of concessions to attract foreign investors in mining and banana cultivation. As a result, the country's economy became dependent upon foreign owned enterprises, which in turn came to employ the country's leading citizens. Honduras' economy became dualistic in nature. A dynamic agro-export sector dominated by foreign capital was juxtaposed against a local pastoral economy dependent upon a small import oriented merchant class, whose entrepreneurial instincts were inherently limited by the dispersed local market and the lack of an adequate national infrastructure.

Regional Dispersion and a Limited Infrastructure

Population in Honduras traditionally has been dispersed throughout the country. Difficult terrain, extreme regional development in the North coast dominated by the banana companies and the lack of a large labor pool capable of building a cheap road network account for the limited infrastructural development in the country. Indeed, this situation has been further complicated by the fact that Tegucigalpa is the only Central American capital city not on the inter-American highway and not served by a railroad line that could carry passengers and, more importantly, freight, to port cities. Thus, low population concentration and limited transportation networks in and out of Honduras have limited the country's ability to communicate internally and project itself outward. Even today, the country suffers from limited infrastructure development, particularly a rural road system which could ensure easy access to markets and population centers.

Economic Dominance by Foreign Companies

More than any other country in Central America, Honduras has been subject to the power and influence of foreign-owned companies. This influence has had social, economic and political consequences which continue to be felt throughout the country.

In the social dimension, the mining and banana companies tended to import management from the United States, thus limiting the growth of a national managerial class. Local elites were hired to represent the companies in legal and political issues, but were not given decision-making responsibilities. The companies often used bribes and corruption to ensure that their needs were met locally. This tendency to bypass legal and constitutional norms has had a strong and enduring influence on the country's behavioral norms.

National political life was strongly influenced by the companies. Parties became dependent upon specific companies; for example, the National Party was regarded by many as the political extension of the United Fruit Company. The national political agenda was structured around the interests and concerns of the companies, which were almost exclusively self-centered. Thus, the inherent economic weakness of the country was reinforced by the pervasive economic and political influence the foreign companies projected.

In the economic sphere, the foreign companies tended to monopolize local commerce through company stores. Honduran merchants could not compete effectively with company monopolies. In addition, while investments were made in local infrastructure related to company activities, there was almost no reinvestment of profits in other parts of the country. Even when local investments were made in banks and supply companies, managerial control tended to be left in the hands of foreigners, thereby limiting local impact.

The economic pervasiveness of the foreign companies and the limited local market were directly related to a very delayed process of import-substituting industrialization, which has been an important stimulus to the growth of the private sector in Latin America. While this process was associated historically with both the economic depression of the 1930s and populism, it finally became a conscious state-sponsored strategy for growth in Central America during the 1960s. The Central American Common Market (CACM) was initially designed to foster balanced industrial growth in the region, creating a regional industrial infrastructure which was complementary, not competitive.

The more advanced countries of the region, however, quickly took advantage of their inherent infrastructural and entrepreneurial advantages. By 1969, Honduras' limitations engendered a situation of trade inferiority with every other Central American country. Despite a dramatic expansion of private sector dynamism and the emergence of a new entrepreneurial/industrial class in the country, Honduras withdrew from the CACM and instead developed new bilateral trade relations with most countries of the region. A favorable economic environment, high commodity prices and expansive state credit provisions helped the private sector to emerge in the 1970s as a serious economic force in the country. Despite the positive changes in the private sector

during this period, the country's inability to compete regionally was a sign of the continuing weakness in the private sector and the legacy of foreign enterprise dominance during most of the 20th century.

Ethnic Divisiveness

Within the context of very limited market and commercial prospects for local merchants, Honduras experienced the arrival of Lebanese and Palestinian migrants to the coastal areas during the early 1900s. Gradually these migrants and a limited number of Jewish immigrants, began to fill the emergent middle importer-exporter/merchant positions which responded to growing population needs following World War I.

While these individuals came to occupy an important place in the Honduran economy, they chose not to assimilate into Honduran society. In particular, the Arab groups came to be identified disrespectfully as "Turcos" and certain myths developed about their business mores and style. Indeed, as this group came to have greater economic success and as their import-export activities gradually expanded into manufacturing and finance, their isolation from the Hispanic locals become more accentuated. While this situation is now beginning to change with Honduran-born Arabs assuming leadership from their more socially conservative parents, the divisiveness engendered through the early interactions still limits private sector unity and effectiveness.

B. Formal Private Sector Organization

The private sector has tended to organize itself into seven broad groupings by economic function: industry, commerce, agriculture and aquaculture, services, finance, transportation and construction. Some 45 organizations or associations are spread through these sectors of the economy (see Chart 1). While each of the organizations varies in strength and size, in recent years several have consistently provided national level leadership. Among these are the National Association of Industries (ANDI), The Cortes Chamber of Industry and Commerce and the Tegucigalpa Chamber of Commerce and Industry.

A non-profit organization established in 1968, the Honduran Council for Private Sector Organizations (COHEP), represents the general interests of most of the private sector organizations. The COHEP consists of representatives of 32 associations and has a full-time executive director assisted by three secretaries. In recent years, export-oriented organizations (FEPROEXAAH and FIDE) have emerged to promote group identity and information-sharing among nascent export-oriented companies.

ANNEX IV

Boards of Directors for

Key Institutions

NOMBRES DE PERSONAS QUE OCUPAN CARGOS EN JUNTAS DIRECTIVAS SEGUN INSTITUCIONES

CARGO	CADERH	C C I C	C O H E P	FOPRIDEH
PRESIDENTE	LEONEL BENDECK**	FELIPE ARGUELLO C.***	JORGE COMEZ ANDINO	JUAN RAMON MARTINEZ*
VICE PRESIDENTE	JESUS SIMON	FELIX MAHOMAR	RICHARD ZABLAH*	RAUL FLORES GOMES
SECRETARIO	ARIEL ESPINAL	KARL HENRY HOLST	JOAQUIN LUNA MEJIA	CARLOS VIGIL
TESORERO	WILLIAMS CHON WONG	HENRRY FRONSER Jr.		RODOLFO GRADEZ
FISCAL	ROMAN VALLADARES	ROBERTO LEIVA		
PROFESORERO	ANDRES VICTOR ARTILES	RAUL MENJIVAR		
PROSECRETARIO		FERNANDO NARANJO		
VOCAL I	ZACARIAS BENDECK	CAMILO RIVERA GIRON*	FELIPE ARGUELLO***	
VOCAL II	DARIO MONTES	JUAN M. CANAHUATY	HECTOR BULNES	
VOCAL III	LIZANDRO FLORES	LUIS MALCFF*	RAMON M. LUNA*	
VOCAL IV	TEOFILO CASTILLO	JORGE FARAJ	NOE GUNERA	
VOCAL V			EPAMINONDAS MARINAKIS*	
VOCAL VI				
VOCAL VII				
VOCAL VIII				

*PERTENECEN A DOS JUNTAS DIRECTIVAS.

**PERTENECEN A TRES JUNTAS DIRECTIVAS

***PERTENECEN A CUATRO JUNTAS DIRECTIVAS

NOMBRES DE PERSONAS QUE OCUPAN CARGOS EN JUNTAS DIRECTIVAS SEGUN INSTITUCIONES

CARGO	F I D E	FEPROEXANH	FIA	FHIA	GEMAH
PRESIDENTE	RICHARD ZABLAH *	FERNAN PINEDA B	JOSEA ALVARADO	RODRIGO CASTILLO	RENE MARTINEZ
VICE PRESIDENTE	EDUARDO ARAGON*	SUYAPA DE COMES	ROGER MARIN	JOHN SANBRAILO	ROBERTO A MIDENCE
TESORERO	JORGE ALVARADO	FUAT F, ABUFELE			SAMY ABUFELE
FISCAL	MARCO T. MENDIETA	EDGARDO VALERIO		JORGE ROMAN	OMAR HURTADO
SECRETARIO	RAMON M. LUNA *	JORGE CAMACHO		ROBERTO GALLARDO	FEISAL RISHMANY
VOCAL I		HECTOR MOTIÑO		JENY LAGOS M*	THELMA MEJIA
VOCAL II		DONALDO PUERIO		VICTOR I PERALTA	JULIO FIGUEROA
VOCAL III		JUAN BOSCO MEDINA		LEOPOLDO ALVARADO	
VOCAL IV		CARLOS R. LOPEZ			
VOCAL V		CARLOS ROMERO			
VOCAL VI		ROBERTO DUARTE			
VOCAL VII		ITZA DIAS ZELAYA			
VOCAL VIII		EFRAIN GUTIERREZ			
VOCAL IX		MANUEL DIAS			
VOCAL X		JERONIMO A, ZELAYA			
VOCAL XI		POMPEYO BONILLA			
VOCAL XII		JOSE MARTIN PINEDA			
VOCAL XIII		ARNOLD BUESO			
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