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PDABD-561
74883

EVALUATION OF PROJECT 522-0289
PRIVATIZATION OF STATE-OWNED ENTERPRISES
IN HONDURAS

For

USAID/Honduras

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September, 1991

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EXECUTIVE SUMMARY

Background

On August 30, 1986, the Government of Honduras (GOH) signed a Project Grant Agreement with USAID/Honduras "to plan and implement the privatization of state-owned enterprises" (Project Agreement, 1986). Prior to the signing of the agreement, the Mission provided funds through an existing contract with the Center for Privatization to establish a Technical Working Group (TWG) to provide expert support to the GOH.

The purpose of the project has been to assist the GOH to achieve its goal of developing an effective strategy for the divestiture of state-owned enterprises (SOEs). At the same time, the project was considered to a large extent to be experimental, and would serve to provide other AID privatization initiatives with a series of "lessons learned." Specifically, the project has had as its primary objective the provision of technical assistance to the GOH in the denationalization of "approximately 12 to 15 SOEs," demonstrating the "feasibility of implementing a privatization program in Honduras," making a "significant contribution to sustained growth (Evaluation Scope of Work, 1989).

More than two years have passed since the mid-term evaluation of the project was conducted in March 1989. The scope of work for the present assessment goes beyond measuring the progress of the project, and seeks as its primary goal determination of project impacts.

The term "privatization" can be defined in many different ways. For the purpose of this evaluation, privatization means the transfer by sale or lease with option to purchase of state-owned companies and/or assets to private investors.

Scope of Evaluation

As consistent with the Scope of Work, the evaluation seeks to measure the overall success of the privatization project and to identify lessons learned for the purpose of designing potential subsequent denationalization initiatives. In order to accomplish this objective, several sets of independent variables were examined. First, the political context in which the project operates was described. Second, major development constraints were identified, including cultural barriers. A similar analysis of the project's relevance as a major economic growth and development strategy was conducted. Third, the economic, financial and social impacts of the privatization initiative were determined by measuring project effectiveness and efficiency in terms of achieving desired results and calculating, inter alia, cost-benefits. Fifth, issues of project sustainability were explored, as were the future directions any subsequent project efforts should take, based on the lessons learned from the present initiative.

Findings

In general, the project has been a success, in spite of significant obstacles to its management and operations. The following is a list of the principal findings of the evaluation, which are addressed in detail in the analysis.

- o The commitment of the present administration to privatization is somewhat mixed. While stated public policy clearly articulates support for denationalization, as does administrative backing of the significant steps taken to privatize SECOPT and other government agencies, the persistent failure of the administration to deal forcefully with CONADI runs counter to presidential rhetoric. In addition, there is some question with respect to the political and management ability of the GOH. So far little political resistance to privatization has emerged. The major problem, however, continues to be CONADI. If the President is willing and able to give the Privatization Commission the authority and resources it needs to function effectively, then there is a good chance that progress will be made in CONADI. Similarly, if the administration is able to continue to expand privatization, as it is doing, then even greater success will be achieved.

- o The lack of a legislative amendment to provide the Privatization Commission the authority to coordinate the privatization process and exercise oversight responsibilities over the public entities involved in the denationalization of state enterprises has been a major impediment to privatization, especially with respect to CONADI.

- o The privatization project has been stalled for the past eighteen months due principally to the incompetence of CONADI management.

- o There is a growing concern that transparency of the process is being seriously compromised by the Liquidation Commission, such as in the case of Cementos de Honduras and the recent lease of INACERO to a group of investors whose names CONADI refuses to disclose, despite the fact that this is information which should be made available to the public.

- o Despite a continued presidential commitment to privatization, there continues to be a significant lack of effective policy and management coordination at the senior administration level.

- o Irrespective of the fact that only one SOE has been privatized by CONADI in the last eighteen months, a functioning privatization process is still in place.

- o This is no where more evident than in the successful effort being made by the GOH to expand privatization beyond the divestiture of the SOEs cited specifically in Decreto 161-85, in effect creating a de facto national privatization policy. This is an important gain.

- The role of USAID local currency severance payments is a key factor in consummating privatizations in the public agencies.

- While ESOPs remain an attractive investment alternative for privatizing SOEs and parts of public service agencies, workers encounter problems in raising sufficient capital for buy outs.

- Organized labor continues to oppose privatization, but has yet to mobilize any effective resistance.

- The economic impact of the project is unequivocally positive, contributing to creation of jobs, tax receipts, export and foreign exchange earnings, balance of payments and reductions in the fiscal deficit.

- SOE asset transfers negotiated on the basis of external debt reduction resulted in considerable savings to purchasers.

- Marketing and public education activities have improved markedly. However, CONADI's virtual management paralysis has put these efforts on hold.

- Both USAID/H and the TWG have performed their project management functions well, despite substantial frustrations resulting from the problems identified in the text of this report, which are effectively beyond their control.

Conclusions

Since the election of the Callejas administration, the project has stagnated, at least with respect to the divestiture of CONADI assets. However, in other ways the project is working well and to some degree even exceeding original expectations. What was once described as a project in search of a policy, has now begun to expand beyond statutorily targeted parastatals to include public service agencies, effectively creating a de facto privatization policy. In addition, the privatization process itself remains intact. The reason only one divestiture has been carried out under the present administration is because CONADI management is extremely weak and the Privatization Commission has not been given the legal authority to require CONADI (i.e., the Liquidation Commission) to make decisions against specific deadlines, or otherwise impel the other institutional actors involved in the process to comply efficiently with their mandates.

Specific conclusions include:

- The political commitment to privatization on the part of the administration is somewhat mixed. Moreover, the management ability to move the process forward is lacking. This has impeded seriously divestiture of CONADI assets, as the chairman of the Liquidation Commission, through mismanagement, poor judgment and questionable actions continues to delay privatization of his SOE portfolio.

- Both BANADESA and, to a lesser extent, COHDEFOR also have been slow to denationalize their assets, suggesting the absence of real commitment to privatize, as well as managerial deficiencies.

- Nevertheless, significant strides have been made toward expanding privatization as evidenced in the divestitures taking place in SECOPT, IHSS and the Ministry of Natural Resources, demonstrating what amounts to an uneven application of the administration's privatization strategy.

- Although an evaluation is not an audit or inspection, the seriousness of irregularities discovered at CONADI, for example, Cementos de Honduras and INACERO, warrants specific comment. The mid-term evaluation indicated that the transparency of the privatization process was intact. However, since that time, it has become increasingly evident that the integrity of the project is being compromised by injudicious actions on the part of the Liquidation Commission.

- While a de facto privatization policy exists, it needs to be codified in order to be enforceable. In addition, economic policies and bureaucratic practices which conflict with the goals of privatization need to be identified and reformed. Similarly, the GOH needs to make a clear distinction between privatization as a goal itself and privatization as one of several key strategies to promote economic growth and jobs. This is especially important in mobilizing public and union support.

- The economic benefits of privatization are clear and significant. The project has resulted in the creation of jobs, reductions in the fiscal deficit, increases in export and foreign exchange earnings and improvements in the balance of trade. The net value added of the project has amply justified USAID/H's investment.

- Opposition to privatization, particularly from organized labor, has been desultory and moderate. In the case of SECOPT, for example, one third of the workforce was laid off without a major confrontation with the unions. In return, a small number of specific jobs were retained, a favorable trade-off by any measure. While labor continues to take a stand against privatization, it has not been very forceful or effective. This is significant because much stronger opposition was anticipated as the project sought to expand into public agencies.

- The use of local currency to underwrite severance pay has proven to be an essential ingredient for success. Without this valuable resource, it is highly unlikely that the achievements of the project would have been so significant.

- As consistent with the project design and strategy, USAID/H and the TWG have maintained a low public profile. This has proven to be very effective in establishing the project as a Honduran initiative.

Recommendations

The evaluators were asked to put into priority order a list of recommendations. While that has been done, it is necessary to underscore the fact that the differences between and among priorities is minuscule. That is, the recommendations should be considered as a complete set.

- o It is imperative that the Privatization Commission be invested with adequate authority to be able to make binding decisions in order to manage the privatization process effectively. The Commission also should have its own permanent staff. The chairman should be made Minister of Privatization (instead of Minister without portfolio), and have a Vice Minister who would be responsible for day-to-day operations, with a small professional staff. This would produce several important advantages. First, it would retain the present chairman, whose authority would be enhanced, but who would have the staff capacity actually to manage the process. Second, the Vice Minister, by virtue of his position and title, would also have to requisite status to act authoritatively over the various institutional actors involved in the process. Third, this would result in greater efficiencies without compromising the integrity of the process.

- o The Liquidation Commission should be dissolved immediately and the Privatization Commission empowered to divest CONADI's holdings through competitively bid contracts with qualified auditing firms which would be paid a market rate plus incentive bonuses.

- o The expansion of the process to include privatization of parts of public agencies should proceed. While it would be desirable to codify into law what is currently a de facto policy of privatization of public services, it is more important to pursue strategies which produce results. USAID/H should study the SECOPT case closely to use as part of the basis for developing the project design for Phase II.

- o The local currency severance pay pool should be expanded as necessary to cushion lay-offs due to divestiture. This has been a key success feature of the project.

- o Creation of ESOPs as a privatization vehicle is very attractive, both politically and economically. However, as workers appear to have difficulties in securing sufficient financing, USAID/H should consider exploring with the GOH ways in which the public entities involved could help finance their own privatization.

- It is essential for the GOH to review its economic and related policies to bring them into conformity with respect to efficient promotion of privatization, eliminating inconsistencies.

- As the privatization efforts are expanded, increased union opposition may develop. To help forestall that possibility, present efforts in communicating with selected labor leaders should be maintained. In addition, the GOH should incorporate useful suggestions on the part of labor into future divestiture strategies, effectively making union leaders stakeholders in privatization. At the same time, the administration needs to make clear what its vision of and for privatization is. One part of that should be protection of worker rights through guaranteed minimum wages. Another important effort should be to bring together the private sector, through COHEP, and labor to discuss and agree upon mutual benefits of privatization. Care, however, needs to be exercised not to move too openly. That is, what "ain't broke" should not be fixed.

<u>Lessons Learned</u>

Most of the lessons learned are implied in the conclusions and recommendations. Nevertheless, there are several points which merit emphasis.

- Clear and determined presidential leadership is essential for a privatization project to succeed. This needs to be manifested in the establishment of a strong central mechanism, invested with the appropriate binding authority, to coordinate the process and insure all institutional actors fulfill their respective mandates.

- The setting of realistic goals and expectations is essential to the performance and impact of privatization projects.

- The political environment is perhaps the most important determinant for the success or failure of privatization. Not to deal with the politics of privatization would be fatal.

- Privatization should be considered one of several means toward economic growth and development, not an end in its self. Put into realistic context it can be an effective strategy for revitalizing economies and sustaining growth. By the same token, this approach makes privatization a practical remedy rather than an ideological imperative.

- A central authority empowered to manage the privatization process is essential. A "Privatization Czar," preferably of ministerial rank, should be named and have adequate staff support.

- The role played by severance payments is key. This effectively blunts criticism from organized labor and cushions the impact of lay-offs.

- Not all SOEs can or necessarily should be privatized. Some non-performing assets are insufficiently attractive for investors and should be shut down to avoid consuming expenditures to maintain them. Others, particularly public service agencies, may lend themselves to real management reforms, thereby producing greater productivity, one of the principal goals of privatization. Where the national climate is such that it would be politically counterproductive to privatize selected agencies, rationalization of their operations can be an effective alternative.

- Where circumstances permit, there is a need to maintain an adequate data base on privatization. There is no other way to track the economic benefits.

- Once again, it is important to repeat the need for an open privatization process with built-in institutional checks and balances. While this means somewhat less efficiency, it virtually insures integrity and credibility. There will always be efforts to subvert or evade the established process, and a transparent system is the best guard against this threat.

- Effective technical assistance requires a low profile.

I. Introduction

A. Background

On August 30, 1986, the Government of Honduras (GOH) signed a Project Grant Agreement with USAID/Honduras "to plan and implement the privatization of state-owned enterprises" (Project Agreement, 1986). Prior to the signing of the agreement, the Mission "bought-in" to an existing contract with the Center for Privatization to establish a Technical Working Group (TWG) to provide expert support to the GOH.

The purpose of the project has been to assist the GOH to achieve its goal of developing an effective strategy for the divestiture of state-owned enterprises (SOEs). At the same time, the project was considered to a large extent to be experimental, and would serve to provide other AID privatization initiatives with a series of "lessons learned." Specifically, the project has had as its primary objective the provision of technical assistance to the GOH in the denationalization of "approximately 12 to 15 SOEs," demonstrating the "feasibility of implementing a privatization program in Honduras," making a "significant contribution to sustained growth (Evaluation Scope of Work, 1989).

More than two years have passed since the mid-term evaluation of the project was conducted in March 1989. The scope of work for the present assessment goes beyond measuring the progress of the project, and seeks as its primary goal determination of project impacts. Specifically, the SOW instructs the evaluators to:

> ...draw conclusions about overall Project success and to identify lessons learned to be applied to the design of a possible follow-on project. The evaluation will measure the achievements of the Project at the goal and purpose levels, estimate the sustainability of the development accomplishments, make recommendations and identify lessons learned useful in planning a second privatization project (Evaluation Scope of Work, 1991).

It is important to note that the mid-term evaluation found that the project had achieved "measurable progress" in meeting its objectives (Evaluation of the Project 522-0289, 1989) and was characterized generally in positive terms. In fact, at the time of the change in government in 1990, the project had already achieved its minimal quantitative goal of privatizing twelve SOEs.

B. Approach

As a general methodological approach, the evaluation measures the economic and social impact of the project to date, as consistent with the goals set forth in the Project Paper. At the same time, project performance is examined, but as an independent variable, inter alia, affecting impact. Once again, it is important to keep in mind in making evaluative judgments that the project was conceived and executed in large part as an experiment. Hence, it would be misleading and inappropriate to apply standards used to assess non-experimental projects.

C. Methodology

While the main objective of the evaluation is to measure the aggregate social and economic impacts of the project, it is essential to place the analysis in a political and, to a lesser extent, cultural context. Specific methods and analytical techniques included: 1) open-ended interviews with key public, private and labor sector leaders, project staff, parastatal officials, political leaders, members of the press, and USAID/H officials (see Annex A for a list of respondents); 2) review and content analysis of selected project and institutional documents (see Bibliography); 3) analysis of secondary data; 4) on-site visits and observations.

D. Caveats

Obstacles to evaluations are to be routinely expected, and the case with this assessment is no different. While most sources were cooperative in providing information, frequently data were incomplete, of questionable reliability, conflicting or simply did not exist. This was especially the case with respect to the economic analysis, where both the quality and paucity of data made calculation of internal rates of return tentative and determination of shadow prices impossible. A major problem was that privatized companies would not provide the team (or TWG, for that matter,) proprietary information.

E. Operational Definition

The term "privatization" can be defined in many different ways. For the purpose of this evaluation, privatization means the transfer by sale or lease with option to purchase of state-owned companies and/or assets to private investors.

II. Principal Findings

- ❑ The commitment of the present administration to privatization is somewhat mixed. While stated public policy clearly articulates support for denationalization, as does administrative backing of the significant steps taken to privatize SECOPT and other government agencies, the persistent failure of the administration to deal forcefully with CONADI runs counter to presidential rhetoric. In addition, there is some question with respect to the political and management ability of the GOH. So far little political resistance to privatization has emerged. The major problem, however, continues to be CONADI. If the President is willing and able to give the Privatization Commission the authority and resources it needs to function effectively, then there is a good chance that progress will be made in CONADI. Similarly, if the administration is able to continue to expand privatization, as it is doing, then even greater success will be achieved.

- The lack of a legislative amendment to provide the Privatization Commission the authority to coordinate the privatization process and exercise oversight responsibilities over the public entities involved in the denationalization of state enterprises has been a major impediment to privatization, especially with respect to CONADI.

- The privatization project has been stalled for the past eighteen months due principally to the incompetence of CONADI management.

- There is a growing concern that transparency of the process is being seriously compromised by the Liquidation Commission, such as in the case of Cementos de Honduras, DESATUR and the recent lease of INACERO to a group of investors whose names CONADI refuses to disclose, despite the fact that this is information which should be made available to the public.

- Despite a continued presidential commitment to privatization, there continues to be a significant lack of effective policy and management coordination at the senior administration level.

- CONADI still has not developed an action plan for the liquidation of its remaining assets. As a consequence, it has not been able to reconcile outstanding financial and legal issues in many of the SOEs, resulting in yet more delays in the process. It is highly doubtful that CONADI will be able to dispose of its assets before its legislative mandate terminates. A similar situation exists in BANADESA which also lacks an action plan and has shown a similar if not greater inability to implement the divestiture process.

- Irrespective of the fact that only one SOE has been privatized by CONADI in the last eighteen months, a functioning privatization process is still in place.*

* Since this evaluation, one additional enterprise has been privatized - CONRAD. However, both CONRAD and PROINCO, the only two SOEs divested in the past eighteen months, are small enterprises and represent a minimal economic impact.

- This is nowhere more evident than in the successful effort being made by the GOH to expand privatization beyond the divestiture of the SOEs cited specifically in Decreto 161-85, in effect creating a de facto national privatization policy. This is an important gain.

- The role of USAID local currency severance payments is a key factor in consummating privatizations in the public agencies.

- While ESOPs remain an attractive investment alternative for privatizing SOEs and parts of public service agencies, workers encounter problems in raising sufficient capital for buy outs.

- Organized labor continues to oppose privatization, but has yet to mobilize any effective resistance.

- The economic impact of the project is unequivocally positive, contributing to creation of jobs, tax receipts, export and foreign exchange earnings, balance of payments and reductions in the fiscal deficit.

- SOE asset transfers negotiated on the basis of external debt reduction resulted in considerable savings to purchasers.

- Marketing and public education activities have improved markedly. However, CONADI's virtual management paralysis has put these efforts on hold.

- Both USAID/H and the TWG have performed their project management functions well, despite substantial frustrations resulting from the problems identified in the text of this report, which are effectively beyond their control.

III. Project Performance

Although according to the Scope of Work it is not the primary purpose of the evaluation to measure project performance, a full understanding of the impacts of the USAID/H sponsored privatization initiative cannot be achieved without a review of its operations and the political environment in which it has functioned.

A. Political Context

Privatization is primarily a political process (Bates). While the transfer of assets from the state to private ownership is on the face of it an economic and financial transaction, it can be consummated only when political conditions permit. This is not surprising as the decision to "privatize" is a priori a political choice. Honduras is not only not an exception to this rule, it proves it. As the mid-term evaluation showed, the success to date of the project came about basically as the result of a convergence of political will and commitment to privatization, along with an ability to get the job done. This was not achieved without substantial difficulty. But the long and the short of it was that the privatization process worked.

It is ironic that after eighteen months in office the current administration, which is much more supportive of the private sector and denationalization of SOEs than the preceding government, has produced only one privatization (PROINCO)[1] of the SOEs targeted for divestiture. Interviews with private sector leaders and government officials indicate a continued strong commitment on the part of the President to privatization. Then why has there been such a slip between the cup and the lip?

Several reasons account for this disparity. Before exploring them, however, it is critical to point out two facts. First, the privatization law of 1985 authorized the divestiture of only certain parastatals and their assets: CONADI, COHDEFOR, BANADESA, and COHBANA. It did not provide authority for blanket privatization. Consequently, the focus of privatization efforts, especially within the USAID/H sponsored project, has been on these entities, particularly CONADI, long viewed as a national scandal (Evaluation of Project 522-0289). Second, since November 1990 the Ministry of Communications, Public Works and Transportation (SECOPT), without benefit of an explicit statutory mandate, has been quietly but very effectively privatizing part of its functions, among other things reducing its payroll by 34.9 percent[2]. In addition, it has plans to continue reductions in personnel and privatization of yet more activities, basically through contracting services (SECOPT: Problematica del Mantenamiento de Carreteras en Honduras). This is not only important in itself, but perhaps more significant is that it represents a de facto expansion of the concept of privatization from the narrow definition established in law as the transfer of state-owned commercial assets to private investors. Hence, there is for the first time an expanded definition of privatization along with the divestiture of part of a nonautonomous public agency.

1. Political Will, Commitment and Ability

It appears that the political will, commitment and ability have converged in the case of SECOPT to produce noteworthy results. However, while

[1] As will be discussed, other privatizations, outside of the authority of Decree 161-85 have taken place under the Callejas administration, specifically parts of the Ministry of Communications, Public Works and Transportation and a small project in the Honduran Social Security Institute.

[2] Interview with Ing. Jose Enrique Ayala, SECOPT, March 17, 1991.

the will and commitment of the administration appear to be in place with respect to CONADI and the other parastatals, the political ability to attain stated goals seems to be in question, at the very least uneven. There is little room for doubt that the President is highly supportive of privatization. The reconstitution of the Privatization Commission as the Comision de Privatizacion de Alto Nivel, headed by a respected member of the private sector with ministerial rank is one piece of evidence. Another is the naming of two replacements to sit on the Valuation Commission in order to help expedite asset valuations and sales. A third example is the presidential green light to proceed with SECOPT and the IHSS. Yet, the fact that only one CONADI owned enterprise (PROINCO) has been privatized since January 1990 brings into doubt the ability of the GOH to move the privatization project forward, at least for the moment.

2. Conflicting Priorities

Honduras is beset by a series of severe economic problems, all of which require the immediate and concerted attention of the President and administration. As a consequence, the priority which otherwise might be accorded privatization has been pushed back in light of these other, more pressing issues, including a large external debt, lack of foreign exchange, and high levels of unemployment. Given that background, it is important to observe the support the President has given to privatization. Of course, accelerated divestiture of SOEs would help to ease some of these other problems. However, it is instructive to note that even when Honduras was not burdened by excessive debt, it still suffered from the same mismanagement and policy incompetence. Hence, the country's economic ills cannot be ascribed to a large debt, at least not to the degree that members of the government and international agencies would like to think. This is all the more reason to pursue aggressively privatization, but always with the same caveat in mind that poor management exists - and not just in the public but private sector as well. Indeed, that was one of the reasons why CONADI's companies failed in the first place.

2. Management

All respondents interviewed agreed that there exists significant management disorganization within the administration. Testimony to this perception, at least with respect to the privatization project, is illustrated by four examples. First, the precipitous rise and fall of the Privatization Technical Office (PTO), established under the Ministry of Finance to help coordinate the process, actually added bureaucratic confusion to an already relatively Byzantine process. Its role was never clearly defined, its activities never productive, and mercifully it has been allowed to die a quiet death. Second, the fact that the President created the Liquidation Commission to oversee the dissolution of CONADI needlessly complicated the privatization process, at the same time it undermined the authority of the new Comision de Alto Nivel (as did the creation of the PTO as well). Moreover, as will be seen, the mission of the Liquidation Commission is inherently flawed in that its existence has not altered the fact that CONADI remains in de facto control of its own dissolution, although admittedly with a fixed term of three years to achieve that goal. The Commission chairman, who is the past CONADI president and continues to serve as the head of the parastatal in his new position, has privatized just one asset during his tenure. This raises legitimate questions concerning his ability and willingness to function effectively as what amounts to a master charged with overseeing the disposition of assets. Even with enhanced authority, the Liquidation Commission president has been able to manage only the single divestiture. This is all the more remarkable in light of the fact that his predecessor, a poor administrator, managed to supervise the denationalization of ten companies. Third, the fact that the Privatization Commission still has not been invested with the authority to make binding decisions on privatization policies and transactions sends a signal of confusion and, to a certain degree, lack of strong commitment. It also results in no effective central authority, responsible directly to the President, to implement his privatization policy authoritatively. While doubtless this is not the intent of the President, the fact of the matter is that it is one more example of the need to improve the coordination of presidential policies and define clear lines of responsibility and authority. Fourth, the Minister of Economy, as the ex oficio chairman of the former CONADI board, convened only one meeting. Yet, at the time, he was one of the key senior officials charged with overseeing the President's policy of privatization.[3] Clearly, other compelling economic priorities, along with a wide and full portfolio, competed for his time and attention.

3. Policy Conflict

Compounding what has been lackluster performance on the part of CONADI's management, is a set of policy conflicts which also hampers the privatization process, and can be traced to poor coordination in the government. This was pointed out in the mid- term evaluation and has not changed since. An especially onerous example is the present regulation requiring the President of the Central Bank to embargo the sale of state-owned assets if an outstanding lien exists, rather than permitting negotiation of a deal to satisfy the lien without direct payment. This has frustrated at least one privatization, Aceros Industriales. Yet there has been no action on the part of the administration to correct the problem. Another case involves the Instituto Nacional Agricola (INA). In two instances, campesinos have invaded lands belonging to Azucarera Central, an SOE owned by CONADI. INA, advocating on behalf of the campesinos, arranged agreements with CONADI to permit the peasants to remain on large portions of the land they invaded,

[3] With the creation of the Liquidation Commission, and simultaneous dissolution of the CONADI board of directors, the Minister of Economy was basically taken out of the privatization loop, although he continues to be an ex oficio member of the Privatization Commission. In an interview with him, he indicated that his ministry purposely has avoided greater participation in privatization, preferring to let the Ministry of Finance and the Central Bank take the lead. In fact the Minister of Economy has never attended a meeting of the Privatization Commission and has sent a representative only occasionally.

effectively reducing the value of the asset to be privatized and thereby detracting from national policy. While redistributing lands to campesinos may be a worthy objective, in these cases it clearly constituted a conflict with GOH privatization goals.

4. Irregularities

The mid-term evaluation concluded that the privatization process was structured in such a way as to prevent, or at least significantly limit, subversion of the process for personal gain. While this appears still to be the rule, the consensus of the respondents is that irregularities exist and present potential problems. Investigation of irregularities is not within the scope of this evaluation. However, the perception that they exist is cause for programmatic concern in that such a situation could produce negative impacts for the project. Part of the problem no doubt may be attributed to the ability of vested interests to delay and otherwise use the rules of the privatization game and cumbersome legalistic procedures to their own advantage. Mejores Alimentos (MALI), which was cited as a case in point in the mid-term evaluation, still has not been resolved. A more recent example is TAN Airlines. The TWG was barred from access to the necessary information with which to value the airline's assets. Needless to say, this effectively prevents privatization of the airline, one of whose principal owners is a former President*. Compounding these types of pressures is the lack of professionalism on the part of the members of the Liquidation Commission.

Equal cause for concern is a perception that CONADI management has not been fully candid in its activities. This view has been fueled by the abysmal lack of results in privatizing its SOEs, and in irregularities characterizing transactions, especially in the case of Cementos de Honduras (CEHSA). In this instance, CONADI and the GOH entered into negotiations with AMPAC Corporation, a U.S. firm, for the purchase of CONADI's shares in CEHSA. During the negotiations, CEHSA transferred selected assets to CONADI without informing either the GOH or AMPAC. In the meeting to conclude the asset transfer, the chairman of the Liquidation Commission was present but in the role of chairman of the board of CEHSA. In the meantime, AMPAC and the GOH signed an agreement for the sale of CONADI's shares in CEHSA, which were effectively reduced in value by the CEHSA/CONADI deal. While it is possible that no laws were broken in this case, there was an egregious lack of judgment and sense of professionalism on the part of the CONADI chairman. Just as disconcerting is the fact that the other two members of the Commission, present at the meeting with the chairman, expressed no objections to the proceedings.

* Since the drafting of this report, TAN was sold to TACA Airlines.

Another example of questionable practices on the part of CONADI is the case of Industria Nacional de Acero, S.A. (INACERO). This SOE was recently leased to INREL, a U.S. company about which little is known. Indeed, after repeated requests on the part of the TWG, CONADI continues to refuse to disclose the names of the investors involved in INREL and the lease of INACERO, although this is legally information which should be made available to the public. Needless to say, this kind of less than candid behavior represents a very real threat to the transparency of the privatization process, which is so crucial to its success, and further erodes CONADI's already bankrupt credibility. Aside from the professional and perhaps legal questions involved in such actions, this kind of behavior has a detrimental impact on the project and tends to discourage investors from coming to Honduras. These irregular activities reinforce stereotypes already hard to overcome in the foreign investment community.

Even under the inefficient management of the previous CONADI administration, privatization goals were met and the transparency of the process was seen as integral. Currently, CONADI has not displayed any sense of urgency to meet the national privatization objectives.

B. Development Constraints

1. Cultural Context

It is equally important to establish a cultural, as well as a political, context in which to understand the constraints to privatization in Honduras. Honduras is no different than other Latin American nations in that its cultural framework does not provide the value base for development and management of effective public institutions. In addition, there is a fragmented sense of national community and identity, exacerbated by regional disparities and primary allegiances to ethnic groups. This has required the design of a purposely complex privatization process, building in several checks and balances in order to limit irregularities and protect the integrity of the system. The trade- off has been a less efficient process, but one which worked, at least until the last eighteen months. The strength of personal rather than institutional relationships, however, still predominates, as do "rules of the game" which constantly shift to evade overly legalistic mechanisms confounding, albeit unintentionally, development of the society and economy.

2. Development Constraints

a) Project Design

The design and the strategy of the project were well conceived and effective, given the cultural, political and institutional constraints present. At the same time, the project has reached a critical juncture at which point two salient issues need to be addressed if it is to continue. First, there still remains the problem of a project with no policy, although this is beginning to change (see Policy, supra). In fact, the TWG has been active in reviewing and critiquing new legislative proposals to expand privatization beyond CONADI, COHDEFOR and BANADESA. Second, the poor management and record of CONADI continue to be problems. But as this is basically a political issue, requiring the political will and ability of the President to change the chairman and members of the Liquidation Commission. In any event, CONADI is scheduled to be dissolved statutorily in two years.

The project design anticipated the constraints under which it is now operating. However, the political, bureaucratic and management problems are ones which cannot realistically be expected to be corrected by the project. These are deeply rooted dilemmas which are evident in all facets of Honduran society and no doubt affect all USAID/H sponsored projects to some degree. The project needs, instead, to recognize and deal with these issues as faits accomplis which, in fact, both USAID/H and the TWG are doing.

b) Relevance to USAID/H Strategies

A review of the CDSS, 1985-1989, does not explicitly cite privatization as a strategy for development. However, language on private sector development, export promotion and economic policy reform implicitly recognize the need for denationalization of SOEs. Moreover, the current USAID/H Mission Director, who was not in that office during development of the CDSS, reaffirmed strong Mission support for privatization as a key component of private sector and economic development in Honduras. Finally, the AID Administrator has called for "support for free markets and broad-based economic growth" (AID, Unclassified Statement, 1990) which embraces the concept of privatization as an key strategy.

3. Project Effectiveness

a) Achievement of Objectives

In qualitative terms, the project has achieved, if not exceeded, its objectives, in that it has helped establish privatization as a functioning process achieving results. Quantitatively, the project has met its goal of divestiture of twelve to fifteen SOEs, having sold the assets of fourteen companies. In addition, the project has been responsible for the divestiture of parts of public agencies, one of the main challenges it faced. The economic and financial impact has been a clear net plus, as evidenced in the data presented in the section "Project Impact," supra. More importantly, the project has been responsible for demonstrating a successful approach to privatization, although not entirely problem-free. But, put in context, there is no question but that objectives have been achieved despite significant obstacles.

b) Additional Actions

It is difficult to see alternative actions which could have been taken to improve measurably the performance of the project. The TWG is satisfactorily managed and has a competent and trained staff (although the senior staff will be gone by the end of September). The problems which are evident in the project do not stem from any lack of ability on the part of the TWG or USAID/H, but are essentially the manifestation of the political and social history of Honduras. Indeed, the very fact that the privatization process was codified and implemented, and is still functioning, is in and of itself a positive development. Similarly, it is hard to point to any economic factors which "facilitated or impeded the overall performance of the project," other than those of a policy nature such as the maintenance of a artificially high rate of exchange, which has now been eliminated. On the contrary, the existence of critical economic problems in Honduras was in fact the very reason for initiating the project in the first place.

IV. Project Impact

A. Overview

Since 1986, the GOH has privatized the assets of fourteen companies with the direct support of the project (see Table 1).[4] The general economic impacts have been positive, despite a process that, while ultimately productive, has proven to be complex and, not infrequently, frustrating.

Only five companies were actually operating at the time of the divestiture of their assets. Most of the remaining non-operating firms had been closed for several years, creating a financial burden for the GOH through non-performing borrowing and the expenditures encumbered for security and basic maintenance of the assets.

Two methods of divestiture are prescribed in the privatization law: (a) sealed bids, when there is sufficient interest from potential investors, and (b) direct negotiation. Of the fourteen divestitures completed so far, twelve were achieved through direct negotiations, although three of these eventually involved direct negotiations with the majority owners of these firms.[5]

The order of priority for the firms to be privatized was established on the basis of a

[4] This does not include the privatization of parts of SECOPT and IHSS. These divestures were completed outside the scope of the Privatization Law.

[5] Despite the widely accepted view in labor circles that the privatization project consists mainly in reverting the assets to their original owners, only INGRASA, PROHCASA, and AYSA could be said to match even remotely this pattern. In fact, CONADI was only a lender to INGRASA and PROHCOSA, and held only a minority share in AYSA as a consequence of a old loan converted into shares after it turned sour, as well as some performing loans.

TABLE 1

LIST OF PRIVATIZED COMPANIES

	Name	Created	Closed	Date of Transfer	Through	New Name
Papeles y Cartones	PACARSA	1974	1981	6/1988	Direct Neg.	Scott Sulacel
Azucarera Yojoa	AYSA			6/1988	Direct Neg.	
Hotel Lincoln Plaza	H.Lincoln			1/1989	Bids	
Contessa Industrial	Contessa	1979		8/1989	Bids	Muebles Wellington de Honduras
Product. Industrial de Concreto	PROINCO	1975	1984	1/1989	Direct Neg.	
Metales y Aluminios	METALSA		1985	1/1986	Direct Neg.	
Ind. Hondurena del Mueble	INHOMSA			2/1987		Artesanos
Fundiciones Centro-Americanas	FUCENSA	1976	1981	1/1987	Direct Neg.	Cofina
Sistema Internac. de Construct.	SIC	1979	1980	6/1988	Direct Neg.	
Servicios Tecnicos Yojoa	SERTECNY	1979	1987	6/1990	Bids	Helsing
Forestal Indust. Agua Fria	FIAFSA			1986	Direct Neg.	YODECO
Servicios Madereros	SEMSA	1975	1987	6/1990	Direct Neg.	
Central de Aserrio Siguatepeque	CASISA	1979	1987	8/1990	Direct Neg.	
Maderera Locomapa	LOCOMAPA	1972	1987	2/1990	Bids	
Prod. Hondurena de Concreto (1)	PROHCOSA			8/1989	Direct Neg. (1)	
Industria del Granito (1)	INGRASA			7/1989	Direct Neg. (1)	

Note: (1) The transactions for PROHCOSA and INGRASA were not real privatizations. The procedures set for privatization were used for an anticipated repayment of outstanding loans from CONADI composite index consisting of two criteria: (a) ease of transfer, i.e., interest of potential investors, prospects of the firm, degree of control of CONADI and/or GOH, existence of legal difficulties; (b) impact, i.e., total value of assets, exposure of CONADI and GOH, fiscal impact, employment. The practical difficulties of transferring the assets may be seen by the fact that only eleven out of twenty planned divestitures were completed in between 1987 and 1989. Subsequent adjustments to the initial work plan suggest that the staff of the TWG demonstrated great flexibility as obstacles to the privatization of some firms became clear. They did not get bogged down in issues beyond their control and were able to keep the process going by shifting attention to other assets with better prospects of divestiture in the short term.

Two firms in operation at the time of divestiture (PROHCOSA and INGRASA) were actually returned to their owners as the result of a special debt swap transaction. These are not counted as actual privatizations. The "privatization" of Azucarera Yojoa (AYSA) also involved the anticipated repayment of a performing loan from CONADI through direct negotiation with firm owners, in addition to the sale of a minority share-holding of AYSA through sealed bids.

Six firms, which were not operating at the time of their divestiture, have been reactivated. This was accomplished after the equivalent of US$15.3 million of additional investments were made in the firms by the new owners.

In many ways, the concerns of many Hondurans about privatization are legitimate. Since many of the companies defaulted after the original owners found themselves unable to meet their financial obligations on loans from CONADI, it is possible to question the policy of returning these assets to the private sector, only to risk starting the same cycle again.

However, this argument only could be considered valid if the role of CONADI had not been radically altered. In the 1970s, CONADI offered attractive rates and soft conditions to promote a variety of socioeconomic goals such as industrialization, regional employment, exports development. As such, CONADI was perfectly willing to lend to sustain operations, to finance unwise expansions and to take over the fixed assets once these loans stopped performing. Since 1986, CONADI has lost this ability and private firms must find private financing for the acquisition of assets, additional investment and working capital. In other words, there is no longer an easy source of financing which will permit survival despite accumulated mistakes. Under these conditions and in the context of broader changes in economic policy in Honduras, privatization is a logical solution.

B. Financial Impact

The financial impact of the projects can be examined using two frameworks for analysis: 1) the recovery on exposure, which tends to focus on nominal or book value and 2) the actual cost to the investor of acquiring the assets.

1. Recovery of Invested Funds

Privatization is the transfer, with counterpart, of state-owned assets to private investors. It is also the conversion of fixed (e.g., real estate or capital equipment) or financial (e.g., shares) resources into other types of assets such as cash or a reduction in some types of liability. As a result, it is useful to analyze the performance of this process by comparing the counterpart received for the assets to:

- The total funds committed by the GOH, or total exposure, to each firm (portfolio recovery)
- The estimated value of the assets being transferred

To determine the degree of portfolio recovery, it has been necessary to estimate total exposure at the time of transfer, because in the CONADI system even non-performing loans continue to accrue interest. To obtain this estimate, a rate of 12.5% per year was applied to the debt of each firm to CONADI for the interval between the last available balance sheet and the time of transfer, a crude method which nevertheless should yield an appropriate order of magnitude. Recovery is calculated on the face value of the assets (e.g. cash, foreign debt etc.) with which the firms were purchased (see Table 2).

On the basis of these calculations (see Table 3), it appears that:

- The average rate of portfolio recovery is 36.6%
- The transactions which yielded the highest rate of recovery tended to have one or more of the following characteristics:
    - i. The firms involved never ceased operations
    - ii. They were special transactions which used the modalities of the privatization law to repay performing loans with anticipation (PROHCOSA, INGRASA and AYSA's first transaction)
    - iii. They involved external debt reduction through the secondary market

A comparison of assessed value with the face value of the assets received by the GOH (see Table 5) in the transactions indicates that the payments in local currency were the most likely to be close to the assessed value. By contrast, payments using

TABLE 2
PORTFOLIO RECOVERY PER YEAR

Name	1986	1987	1988	1989	1990	1991	Total
PACARSA			10,962				10,962
AYSA			11,213				11,213
H.Lincoln				15,027			15,027
Contessa				13,793			13,793
PROINCO						400	400
METALSA			571				571
INHOMSA		1,073					1,073
FUCENSA		5,643					5,643
SIC			820				820
SERTECNY					601		601
FIAFSA	5,500						5,500
SEMSA					18		18
CASISA				3,517			3,517
LOCOMAPA					1,530		1,530
Total I	5,500	6,716	23,566	32,337	2,149	400	70,668
PROHCOSA (1)				3,146			3,146
INGRASA (1)				2,331			2,331
Total II	5,500	6,716	23,566	37,814	2,149	400	76,145

Note: (1) see note (1), Table I

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TABLE 3

EXPOSURE AND PORTFOLIO RECOVERY

	1	2	3	4	interest rate:		12.50%	
Name	Date of Initial Exposure Calculation	Total Parastatal Exposure (Lps.000)	Debt (Lps.000)	Date of Transfer	Estimated Exposure at Transfer (Lps.000)	Recovery (Lps.000)		
PACARSA	02/86	34,060	31,560	06/88	44,684	10,962	24.5%	
AYSA	09/86	25,738	19,707	06/88	11,213	11,213	100.0%	
H.Lincoln	07/89	20,887	20,487	11/89	24,582	15,027	61.1%	
Contessa	04/88	17,765	12,043	08/89	19,937	13,793	69.2%	
PROINCO	04/89	6,138	5,838	01/91	7,557	400	5.3%	
METALSA	02/87	5,710	5,311	01/88	6,351	571	9.0%	
INHOMSA	09/86	2,659	2,459	02/87	2,790	1,073	38.5%	
FUCENSA	02/83	5,430	4,740	01/87	8,325	5,643	67.8%	
SIC	01/82	2,388	2,138	06/88	4,998	820	16.4%	
SERTECNY	10/88	34,741	30,641	06/90	41,798	601	1.4%	(2)
FIAFSA	10/86	39,819	35,046	1986	39,819	5,500	13.8%	
SEMSA	06/90	5,030	4,363	06/90	5,030	18	0.4%	(3)
CASISA	08/86	20,775	16,432	10/89	28,705	3,417	11.9%	
LOCOMAPA	06/88	2,399	1,878	02/90	2,831	1,530	54.0%	
Total I					248,620	70,568	28.4%	(4)
Total II					201,793	69,949	34.7%	(4)
PROHCOSA (1)	09/86	1,650	1,650	08/89	2,371	3,146	132.7%	(5)
INGRASA (1)	09/86	1,371	1,371	07/89	1,950	2,331	119.5%	(5)
Total III					206,114	75,426	36.6%	

Notes:

(1) Special transaction through which the owners repaid their debt to CONADI

(2) Exposure to SERTECNY may be overstated due to complex arrangements with Quimicas Conrad

(3) FIAFSA/YODECO leases the facilities of SEMSA with an option to buy

(4) Total I is the gross total of the data as provided by the TWG
Total II is an adjusted total which does not include SERTECNY and SEMSA which could be distorting the actual result.
Total III is the sum of Total II and the two special transactions for PROHCOSA and INGRASA

(5) The recovery rate above 100% is the result of the discount which the GOH applies to face value of external debt paper purchased on the secondary market. This discount is itself a function of the average discount for Honduran debt on the secondary market. (see Table #4)

* This represents the number of months between the date of Initial Exposure Calculation and the Date of Transfer

external debt at face value largely exceeded the assessed value a consequence both of the huge discounts on the face value of Honduran external debt paper on the secondary market and the discount applied by the GOH on the face value of this redeemed debt paper.

2. Private Investment in Divested Firms

Total private investment in divested firms is the sum of the initial outlays for acquisition plus subsequent investment in plant and equipment.

The initial cost of acquisition was calculated assuming an eighty percent discount on the Honduran external debt on the secondary market. The investor purchased the paper (principal only) to be redeemed at a discount on face value by the GOH (Table 4), while the bank holding the debt would forgive the accumulated unpaid interests on the purchased paper.

It appears that the mechanism of external debt redemption yielded savings to investors since their cost of acquiring the assets was below the assessed on the Honduran external debt on the secondary market. The investor purchased the paper (principal only) to be redeemed at a discount on face value by the GOH (Table 4), while the bank holding the debt would forgive the accumulated unpaid interests on the purchased paper. Nevertheless, it is essential to point out that the GOH incurred significant savings in that both principal and interest of the external debt were retired. In contrast, transactions on the basis of local currency were very close in terms of investors' outlays to the assessed value of the assets. (Table 5)

Many of the enterprises being divested had been closed for some time and their equipment was antiquated if not obsolete. In many of these firms, and even in some which so far have failed to resume operations, substantial additional investments have been made by the new owners. The savings on the initial outlays for the assets may be well justified in the light of the need for new equipment (Table 6).

C. Economic Impact

The privatization project in Honduras had two complementary objectives. First, its purpose was to contribute to the improvement of the financial balance of the GOH by selling non- performing or poorly performing assets in the portfolio of various parastatals. Second, it was expected that these assets, under the improved management of private owners, could greatly contribute to the reactivation of the Honduran economy through increases in production and value added, employment, tax revenues and exports. The technical process of privatization is essentially a financial operation - the transfer of assets from one owner to another. It is therefore not surprising that the efforts of the personnel of the Technical Working Group (TWG) of the privatization project were mainly directed toward contractual and financial aspects, while monitoring of the economic impact received

TABLE 4
DISCOUNT SCHEDULE ON EXTERNAL DEBT FACE VALUE
SET BY G.O.H. IN FUNCTION OF SECONDARY MARKET VALUATION

Market Value of External Debt	Percent of Face Value Accepted by G.O.H (1)
60–100	100
55	96
50	92
45	88
40	84
35	80
30	75
25	71
20	67
15	65
10	58
5	54

Note: (1) The formula is: $Y = 5/6 X + 50$
X being a straight linear average of four secondary market quotes

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[redacted]

TABLE 5
ESTIMATED COST OF ACQUISITION TO INVESTORS

Name	Base Price of Assets US$	Local Currency Payment Lps.	Foreign Debt Reduction			Total Face Value Counterpart Received Lps. (1)	As Pct. of Assets Value	Estimated Cost to Investors US$ (2)	As Pct. of Assets Value	
			Principal US$	Interest US$	Total US$					
PACARSA	$3,000,000		$4,040,000	$1,199,743	$5,239,743	10,479,486	174.7%	$808,000	26.9%	
AYSA	$4,000,000	9,000,000			$0	9,000,000	112.5%	$4,500,000	112.5%	(3)
H.Lincoln	$2,725,000		$4,040,000	$1,593,000	$5,633,000	11,266,000	206.7%	$808,000	29.7%	
Contessa	$3,600,834		$5,073,000	$1,823,900	$6,896,900	13,793,800	191.5%	$1,014,600	28.2%	
PROINCO	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	
METALSA	$120,000	240,000			$0	240,000	100.0%	$120,000	100.0%	(4)
INHOMSA	$536,500	1,073,000			$0	1,073,000	100.0%	$536,500	100.0%	(4)
FUCENSA	$1,000,000		$2,000,000	$821,748	$2,821,748	5,643,496	282.2%	$400,000	40.0%	
SIC	$300,000	9,091	$300,000	$325,645	$625,645	1,260,381	210.1%	$64,546	21.5%	
SERTECNY	$489,184	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	
FIAFSA	N.A.	N.A.	N.A.	N.A.	$551,000	N.A.	N.A.	N.A.	N.A.	
SEMSA	N.A.	N.A.	N.A.	N.A.	$0	N.A.	N.A.	N.A.	N.A.	
CASISA	N.A.	N.A.	N.A.	N.A.	$0	N.A.	N.A.	N.A.	N.A.	
LOCOMAPA	N.A.	N.A.	N.A.	N.A.	$0	N.A.	N.A.	N.A.	N.A.	
Total I (5)	$15,282,334	10,322,091	$15,453,000	$5,764,036	$21,217,036	2	0.0%	$8,251,646	54.0%	
PROHCOSA	$1,200,000		$1,200,000	$372,864	$1,572,864	3,145,728	131.1%	$240,000	20.0%	
INGRASA	$840,000		$840,000	$105,343	$945,343	1,890,686	112.5%	$168,000	20.0%	
Total II (5)	$17,322,334		$17,493,000	$6,242,243	$23,735,243	$5,036,416	14.5%	$8,659,646	50.0%	

Notes:

(1) Using a conversion rate of Lps.2=US$1
(2) Assuming a discount of 80% of the face value for Honduran debt on the secondary market
(3) Resulting from two transactions: (a) direct negotiations, (b) sealed bids on shares
(4) Special transactions where the privatization mechanism was used to repayperforming debt to CONADI
(5) Not including SERTECNY, FIAFSA, SEMSA, CASISA, LOCOMAPA

TABLE 6
TOTAL PRIVATE INVESTMENT
IN DIVESTED COMPANIES

Name	Estimated Assets Acquisition Cost US$	Additional Investment US$	Total US$
PACARSA	$808,000	$8,000,000	$8,808,000
AYSA	$4,500,000	N.A.	N.A.
H.Lincoln	$808,000	$50,000	$858,000
Contessa	$1,014,600	$2,500,000	$3,514,600
PROINCO	N.A.	$0	N.A.
METALSA	$120,000	$50,000	$170,000
INHOMSA	$536,500	$75,000	$611,500
FUCENSA	$400,000	$360,000	$760,000
SIC	$64,546	N.A.	N.A.
SERTECNY	N.A.	N.A.	N.A.
FIAFSA	N.A.	$4,000,000	$4,000,000
SEMSA	N.A.	N.A.	N.A.
CASISA	N.A.	N.A.	N.A.
LOCOMAPA	N.A.	$250,000	N.A.

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somewhat less attention. Monitoring was also impeded by the fact that once the new private owners acquired the assets, they were and are under no obligation to provide information about their operations beyond what is legally required.

Under these conditions, an evaluation of the economic impact of a privatization process often has to contend with a lack of data and tends to be impressionistic. Although data to conduct a complete evaluation (Table 7) are not available to yield a precise picture of the project's impact, the TWG staff managed to collect sufficient data to suggest clear trends, despite little to no cooperation on the part of the new owners. No significant unplanned effects, either positive or negative, were found.

1. Value Added and Employment

Data on production, sales and costs, are generally considered confidential by private businesses, and were not made available to the TWG or the evaluation team. It is therefore impossible to evaluate quantitatively the impact of the privatizations completed so far on GDP. However, qualitative inferences on the impact of the privatization can be made on the basis of the following:

- Six firms which were not in operation at the time of their divestiture are now operating at significant levels of output, as can be implied from their newly hired labor force and/or their recently expanded exports.

- Some of the firms in operation at the time of divestiture were operating well below capacity and have increased their labor force significantly. As an example, Contessa Industrial operated at 30% of capacity with a labor force of 80 prior to 1989: by 1990, its direct labor force had reached 200.

Since there is no reason to believe that the operations of the five firms operating before their divestiture were negatively affected, the reactivation of the activities of six firms by their new owners - some of which had been inactive for over five years - represents an unequivocal net gain in value added for GDP. Since the majority of the inputs are of a domestic origin, the secondary impact of the reactivation reinforces the qualitative finding that the divestiture of these assets contributed to GDP growth.

The reactivation of six divested firms and the increase in activity of others yielded an estimated expansion in direct employment of 954 workers* in 1990 (Table 8).[5] But

[5] This estimated figure is the result of a comparison between the estimated employment prior to divestiture (including security and basic maintenance) and the employment figure provided by the TWG for 1990. As the

TABLE 7

DATA NECESSARY FOR A COMPLETE EVALUATION OF A PRIVATIZATION PROJECT

		Before	After
PARASTATAL	EXPOSURE		
	Loans	X	
	Equity Participation	X	
INVESTOR	Effective Date of Divestiture		
	INITIAL INVESTMENT		
	Cash		
	Internal Debt		
	External Debt		
	ADDITIONAL INVESTMENT		X
FIRM	ANNUAL SALES	X	X
	Domestic	X	X
	Exports	X	X
	VALUE ADDED	X	X
	EMPLOYMENT		
	Number of workers	X	X
	Production	X	X
	Administration	X	X
	WAGES AND SALARIES		
	Production	X	X
	Administration	X	X
BALANCE OF PAYMENTS			
	Exports	X	X
	Imports	X	X
	Savings on external debt service		X
	Profit Repatriation		X
PUBLIC FINANCES	TAX COLLECTION		
	Corporate Income Tax	X	X
	Individual Income Tax	X	X
	Production Tax	X	X
	Sales Tax	X	X
	Dividend Tax	X	X
	Import Tax	X	X
	Export Tax	X	X
	PUBLIC EXPENDITURES		
	Net Operating Loss on Assets	X	
	Savings on External Debt		X

TABLE 8
DIRECT EMPLOYMENT: 1990

Name	PRE-PRIVATIZATION			POST-PRIVATIZATION		Impact of Divestiture
	Firm Status (1)	Direct Employment Projected 1990	Direct Employment Estimated	Firm Status (1)	Direct Employment Estimated	
PACARSA	0		5	1	203	198
AYSA (2)	1		500	1	400	0
H.Lincoln	1		120	1	120	0
Contessa	1		80	1	200	120
PROINCO	0		5	0	5	0
METALSA	0	60	5	0	5	0
INHOMSA	0	175	5	1	71	66
PROHCOSA	1		(3)	1	(3)	(3)
FUCENSA	0	214	5	0	5	0
INGRASA	1		(3)	1	(3)	(3)
SIC	0		5	0	5	0
SERTECNY	0		5	1	60	55
FIAFSA	0		5	1	450	445
SEMSA	0		5	1	(4)	(4)
CASISA	0		5	0	5	0
LOCOMAPA	0		5	1	75	70
Total	5		755	11	1604	954

Notes:

(1) 0 = firm is not operating
1 = firm is operating

(2) (a) Estimates of employment for AYSA have been converted to man-year equivalent to take into account the significant partial time employment (5 months/year)
(b) AYSA has reduced its work force as a consequence of improvement in productivity. Since this reduction in employment is not a direct consequence of privatization, the change in employment is not counted in the total.

(3) Special transactions (see Table #1, Note 1)

(4) included in FIAFSA/YODECO

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the employment impact is not limited to the increase in the payroll of the firms. Their expanded activities have a secondary impact: firms hire cleaning services, suppliers hire more workers to meet the additional demand, etc. The quantification of this indirect employment is always subject to debate. One question is where to limit the measurement of the indirect effects: the secondary employment probably generates tertiary employment effects and so on. In addition, the historic employment data necessary for an assessment of the impact are generally non-existent. Under these conditions, the tendency is to use gross estimates based on rules of thumb. In the present case, for the estimation of indirect employment generated, based on observations and discussions with business owners and economists, the TWG assumes 2.5 indirect jobs created for each direct jobs.

Although this figure appears high for some activities, such as furniture making or hostelry, it is probably too low for the sawmills and paper plant. Both of those activities rely on a network of suppliers providing the inputs (trunks, recycled paper) with low capital intensity to relatively labor intensive and high volume operations. Overall, however, the figure of 2.5 indirect jobs for each direct hire does not seem unreasonable. In alternative one, it has been assumed that for paper and saw mills 3 indirect jobs were created for each direct hire, and that for the rest of the activities the figure is somewhere between 1 and 1.5. The result does not differ significantly from the second alternative, where a flat 2.5 indirect jobs are assumed for each direct hire. Under these conditions, the estimate of approximately 2,500 indirect jobs created would appear to be reasonably supported (Table 9).

No breakdown of the gain in employment by sex is available. Given the nature of the activities which represent the bulk of the jobs created (saw and paper mills, wood working), males were probably the majority of direct beneficiaries. Nevertheless, observations of workers entering and leaving selected plants lead to the strong impression that relatively large numbers of women also are employed in the privatized companies.

* As of the data of final publication of this report, the total number of jobs directly created as a result of the project is 1,211.

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restructuring of the operations of AYSA had started before the sales of the shares to the majority owners and the corresponding decrease in employment cannot be linked to its divestiture from CONADI, the change of employment is not include in this estimate.

TABLE 9

INDIRECT EMPLOYMENT CHANGE

Name	Alternat.I Estimate 1990	Alternat.II Estimate 1990
PACARSA	594	495
AYSA (2)	0	0
H.Lincoln	0	0
Contessa	150	300
PROINCO	0	0
METALSA	0	0
INHOMSA	83	165
PROHCOSA	(3)	(3)
FUCENSA	0	0
INGRASA	(3)	(3)
SIC	0	0
SERTECNY	83	137
FIAFSA	1335	1112
SEMSA	(4)	(4)
CASISA	0	0
LOCOMAPA	210	175
Total	2454	2384

Notes: see Table #8, Direct Employment

The total increase in wages and salaries generated by the reactivation of the firms under their private owners is estimated at close to Lps. 20 million for 1990 (Table 10).[6] Although impressive by themselves, these results may seem almost insignificant put into the broad context of the Honduran economy. But the project was experimental in nature and the firms which have been divested were not the largest SOEs, but those which could be privatized relatively easily. The importance of the project at this stage is not its macroeconomic impact but its demonstrative effect. In addition, most of the privatized firms are located in or around San Pedro Sula. Hence, the impact of the reactivation may be quite significant at the regional or local level.

2. Balance of Payments

a. Exports

Total exports from the privatized firms, with the exception of Azucarera Yojoa which never ceased operations and whose changes in operations and volume of exports cannot be linked to the divestiture, amounted to US$6.9 million in 1990, an estimated increase of US$6.2 million (Table 11). Even more encouraging is the fact that this figure probably does not represent the true export potential of these companies. Several firms have experienced long pre-operative periods after divestiture and have not yet achieved full capacity. Examples include:

- PACARSA/SCOTT SULACEL has had to install new and modern equipment and train a large labor force in techniques of modern paper making from recycled paper, an innovation in Honduras where the existing paper mills only reprocess imported paper. Apparently, operations did not start until late in 1989 and may not be yet at their full capacity.

- Contessa/Muebles Wellington has been owned by a US concern since 1989, when it started expanding its labor force. Its exports of US$1.7 million in 1990 represent an estimated increase of over US$1.2 million, but may be well below the projected level for full operations.

- FUCENSA/COFINA was acquired by the Nelson Group of Washington State which, in its feasibility study, explicitly considered the possibility of exports to other Central American countries. Although the firm is not operating at this time due to a shortage of working capital, the fact that additional

[6] This estimate assumes that all indirect labor is paid at or close to the minimum wage.

TABLE 10
WAGES AND SALARIES

Name	Firm Status (1)		Wages and Salaries 1990 Lps.	Estimated Impact Lps.
	Pre	Post		
PACARSA	0	1	4,156,425	4,156,425
AYSA (2)	1	1	N.A.	N.A.
H.Lincoln	1	1	N.A.	N.A.
Contessa	1	1	3,173,625	1,904,175
PROINCO	0	0	36,000	0
METALSA	0	0	36,000	0
INHOMSA	0	1	2,047,500	2,047,500
PROHCOSA	1	1	(3)	0
FUCENSA	0	0	36,000	0
INGRASA	1	1	(3)	0
SIC	0	0	36,000	0
SERTECNY	0	1	921,375	921,375
FIAFSA	0	1	9,213,750	9,213,750
SEMSA	0	1	(4)	(4)
CASISA	0	0	36,000	0
LOCOMAPA	0	1	1,617,525	1,617,525
Total	5	11	21,310,200	19,860,750

Notes: see Table 8, Direct Employment

TABLE 11

EXPORTS: 1990

Name	Firm Status (1)		Exports 1990 US$	Increase due to reactivation
	Pre	Post		
PACARSA	0	1	$125,000	$125,000 (1)
AYSA (2)	1	1		$0 (2)
H.Lincoln	1	1		$0
Contessa	1	1	$1,680,000	$1,000,000 (3)
PROINCO	0	0		$0
METALSA	0	0		$0
INHOMSA	0	1	$500,000	$500,000
FUCENSA	0	0		$0
SIC	0	0		$0
SERTECNY	0	1		$0 (4)
FIAFSA	0	1	$4,200,000	$4,200,000
SEMSA	0	1		$0
CASISA	0	0		$0
LOCOMAPA	0	1	$350,000	$350,000
Total	3	9	$6,855,000	$6,175,000

Comments:

(1) PACARSA/SCOTT SULACEL is at an early stage of operations and this figure may significantly underestimate the export potential to neighboring countries.

(2) Exports especially to US are decreasing for reasons independent of the priivatization.

(3) Contessa Industrial has been acquired by Wellington Furniture which exports to the US market. No estimate of pre-privatization firm exports was available, but the increase of employment suggests significant increases in production and exports. A gross estimate is provided here.

(4) SERTECNY/HELSING is expected to develop exports of the active ingredient of the calaguala fern.

investment was made suggests a commitment to a reactivation of operations in the future.

b. Imports

No information on the impact of the privatization on imports is available. Qualitative inference on the nature of the impact can be made based on the various potential types of imports:

- Additional investment totaled US$15.3 million over the period 1987-1990. Without further breakdown of the nature of this investment (working capital, equipment, construction), and its source of financing (domestic or foreign), it is impossible to evaluate its impact on the balance of payments. However, it can be noted that two-thirds of the total investment was directed toward firms purchased by foreign investors who were trying to upgrade equipment and provide working capital, in which case the financing was in foreign currency and did not require net outflows of foreign exchange, although imports may have risen by the amount of equipment.

- Current inputs: in a country at the level of development of Honduras, an increase in economic activity leads to an increase in imports both directly (inputs, oils and greases, replacement parts, etc.) and indirectly (consumption effect). Quantification of the combined impact on imports is impossible under present circumstances. However, the net effect can be assumed to be quite small since the outputs of the privatized firms depend in their majority on local primary inputs (wood, recycled paper, etc.).

- Import substitution: The PACARSA/SCOTT SULACEL plant, unique in Honduras, is equipped to produce paper products from recycled paper. As such, it produces intermediary paper products for use by other paper mills, which were only available through imports and final consumption paper which are also partially imported. Although the activity of the plant will reduce the export of recycled paper to other Central American nations, this is more than compensated by the likely cuts in relatively high value imports of intermediary and final paper goods.

Although the current net impact of the privatization project on the balance of trade so far cannot be quantified, on the basis of the arguments above, it is reasonable to conclude that the gains in exports have been far greater than the concomitant increases in imports, and that the balance of trade has benefitted from the privatization.

3. External Debt Reduction

Privatization has resulted in a US$25.3 million decrease in the Honduran external debt. This debt had not been performing and unpaid interests represented between 30 and 35% of the total. As investors purchased the principal on the secondary market, the banks holding the debt forgave the accumulated interests.

To estimate the annual savings generated by this decrease in debt, two alternatives were considered: 1) the accumulated unpaid interest was capitalized and debt service calculated on the total base of US$25.3 million; 2) external debt servicing resumed after forgiveness of the accumulated unpaid interests. In addition, it was assumed that the average interest rate applicable to the debt is LIBOR at 9.5% plus three margin points, or a total of 12.5%, and that the amortization of the principal would follow a straight line rule and be completed over ten years.

	Alternative I	Alternative II
Principal	US$25,300,000	US$17,700,000
Interest 1990	US$ 3,162,500	US$ 2,212,500
Amortization	US$ 2,500,000	US$ 1,770,000
Total Saving	US$ 5,662,000	US$ 3,982,000

The total improvement in the balance of trade is estimated at between US$3.6 million and US$5.6 million. Since the external debt was not being serviced, it is difficult to determine savings associated with the reduction of the debt, at least on a cash basis. But privatization nevertheless has the affect of reducing growth of the external liabilities of Honduras by an estimated US$3.9 million to US$5.6 million for 1990.

In summary, the total reduction in foreign exchange liability, from improvement in the trade account and in external debt servicing, is estimated at between US$7.5 million and US$11.2 million for 1990 (Table 12).

TABLE 12
ESTIMATED IMPACT ON THE BALANCE OF PAYMENTS: 1990
US$ Million

	Scenario	
	Least Favorable	Most Favorable
Exports Increase	6.1	6.1
Imports Increase	2.5	0.5
Balance of Trade Gain	3.6	5.6
External Debt Savings		
Interest	2.2	3.1
Amortization	1.7	2.5
Subtotal	3.9	5.6
Total Gain	7.5	11.2

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4. Public Finances

Once again, the information necessary to estimate impact on state revenues and expenditures is totally lacking. Information on taxes paid by corporations and/or individuals is strictly confidential. Nevertheless, on the basis of the limited available information, one can infer the nature of the impact.

a. Tax Revenues

Privatization has had an impact on several tax bases.

- Corporate Income: Although the six firms that have started operations since divestiture appear profitable, it is far from certain that from an accounting standpoint corporate income is positive. In their majority, these firms have invested heavily in equipment in the last two years, which may have had a high impact on corporate income depending on the type of depreciation rule used. Also, these firms are only now reaching the point of full capacity operations. But at worst, the impact on tax receipts from this base will be neutral.

- Personal Income: The base for personal income tax has increased. The average wage, even in including all indirect labor, is well above the exclusionary limit of Lps.2,000.

- Declared Dividend: See "Corporate Income" above.

- Sales: Although the volume and value of sales are unknown, there can be no doubt that this tax base has increased with the reactivation of the firms. The same is true for production (on sales ex fabrica)

- Imports (on CIF base): Imports probably increased and the tax base should reflect that, unless the firms which are importing are benefitting from temporary exemptions under programs of export promotion incentives, in which case the effect would be neutral.

- Exports: As exports have increased so it is assumed that tax revenues on this base also have risen.

In summary, for 1990, the impact of the privatization on the various tax bases has been positive, or neutral in the worst case scenario, and the global net effect should therefore be positive.

b. Public Expenditures

The management of the SOEs prior to their transfer represented a cost for the public sector, if for no other reason than the costs of providing security to the installations. In addition, some firms are a drain on the treasury even when they are operational. A recent example, CORFINO, was losing Lps. 1.6 million per month, prior to its eventual shut down.

It is assumed that given the poor financial profiles of the operating and paralyzed SOEs, the actual transfer of assets to the private sector yielded savings on CONADI operations, in addition to the savings on external debt service.

D. Summary Economic Impact

USAID/H expenditures on the project to date have been:

		Local Currency Equivalent
Technical Assistance:	US$ 3,100,000	Lps. 6,200,000
Local Currency:	Lps.5,000,000	Lps. 5,000,000
TOTAL		Lps.11,200,000

A substantial amount of the technical assistance has been expended by the TWG on companies which have yet to be privatized. Grossly based on the number of studies and evaluations, it can be estimated that about two-thirds of the technical assistance has been directed to the companies privatized so far, for a total amount of US$2 million.

The local currency expenditures have been mainly used to eliminate potential financial claims on the companies to be privatized such as the severance payments. For example, Lps. 815,461 went to FIAFSA employees in August 1988, Lps. 1,469,993 to Contessa and Hotel Plaza employees in June 1989, and Lps. 400,786 to LOCOMAPA employees in June 1990.[7]

The total estimated expenditures of the project on privatizations completed is estimated to be Lps. 9,000,000. In summary, the specific quantitative outcomes have been:

[7] AID funds were also used for severance payments to the employees of SECOPT as a contribution to the privatization of the Ministry of Transportation, which was not included in the privatization project.

- creation of over 900 permanent jobs in the transferred firms, and 2400 indirect jobs

- an increase in wages and salaries paid of approximately Lps. 20,000,000

- an improvement in the trade account of US$ 8.3 million to US$ 10.4 million

- a decrease in external debt of US$ 25 million and consequent annual savings on the balance of payments in the range of US$3.8 to US$5.5 million

- an increase in several tax bases and a decrease in public expenditures, thus contributing to an improved fiscal balance.

It is particularly important to emphasize the fact that while USAID/H funds represent a one-time expense, the positive results of the project are recurrent.

E. Political Impact

1. Public Education

While efforts have been undertaken to promote a salutary awareness of privatization among the public, these have not been sustained on a regular basis. Although the TWG staff have spoken publicly on the benefits of privatization, and even contracted with a local consulting firm to develop a communications strategy, it must be remembered that the TWG's role is intentionally low profile. It is really up to the GOH to promote privatization, with technical assistance from the TWG. This has not occurred, mostly as the result of the absence of an executive staff for the Privatization Commission.

Public education can be a double edged sword. While it is necessary to keep the record straight with respect to the advantages of and the need for privatization, putting the issue before the public can also invite debate which serves the purposes of opponents of denationalization, especially organized labor. To some extent, such debate is inevitable, as opponents will initiate it themselves. So far, the TWG appears to have been able to pick its way through the publicity minefield with success, talking with labor and making the literate public aware of the benefits of privatization. The major problem is that the Privatization Commission should have been responsible for this. As there is no direct executive staff for the Commission, it either relies on the TWG (thereby risking the Group's effectiveness as a neutral technical assistance group) or does nothing at all. Similarly, the Liquidation Commission has been less than effective in participating in public education activities. As the LC has failed to produce few meaningful results, there is little about which to educate the public. Perhaps more important is the fact that some of the actions on the part of LC members and chairman have been less than transparent, creating an increasing sense of suspicion that the LC is less than forthcoming.

There is no question but that organized labor represents the most vocal and determined opposition to privatization. Despite meetings with the TWG, there is a persistent suspicion of privatization as a GOH strategy to break the unions (which are regarded as the strongest in Central America). Irrespective of the facts, they see the privatization of CONADI as returning assets to the original owners, to repeat their same mistakes under what they believe amounts to a public subsidy. Interestingly enough, however, was the comment by one labor leader that the unions view foreign investors more favorably than Hondurans because they see outsiders as providing better salaries and benefits for workers.

Union leaders also are convinced that privatization is linked to solidarismo, a movement they consider anathema. Not surprisingly, they also believe denationalization will result in unemployment. While the cost cutting measures and gain in efficiency under private management often result in losses in employment in the short term, in Honduras employment actually increased after privatization because many privatized SOEs were not in operation prior to their sale.

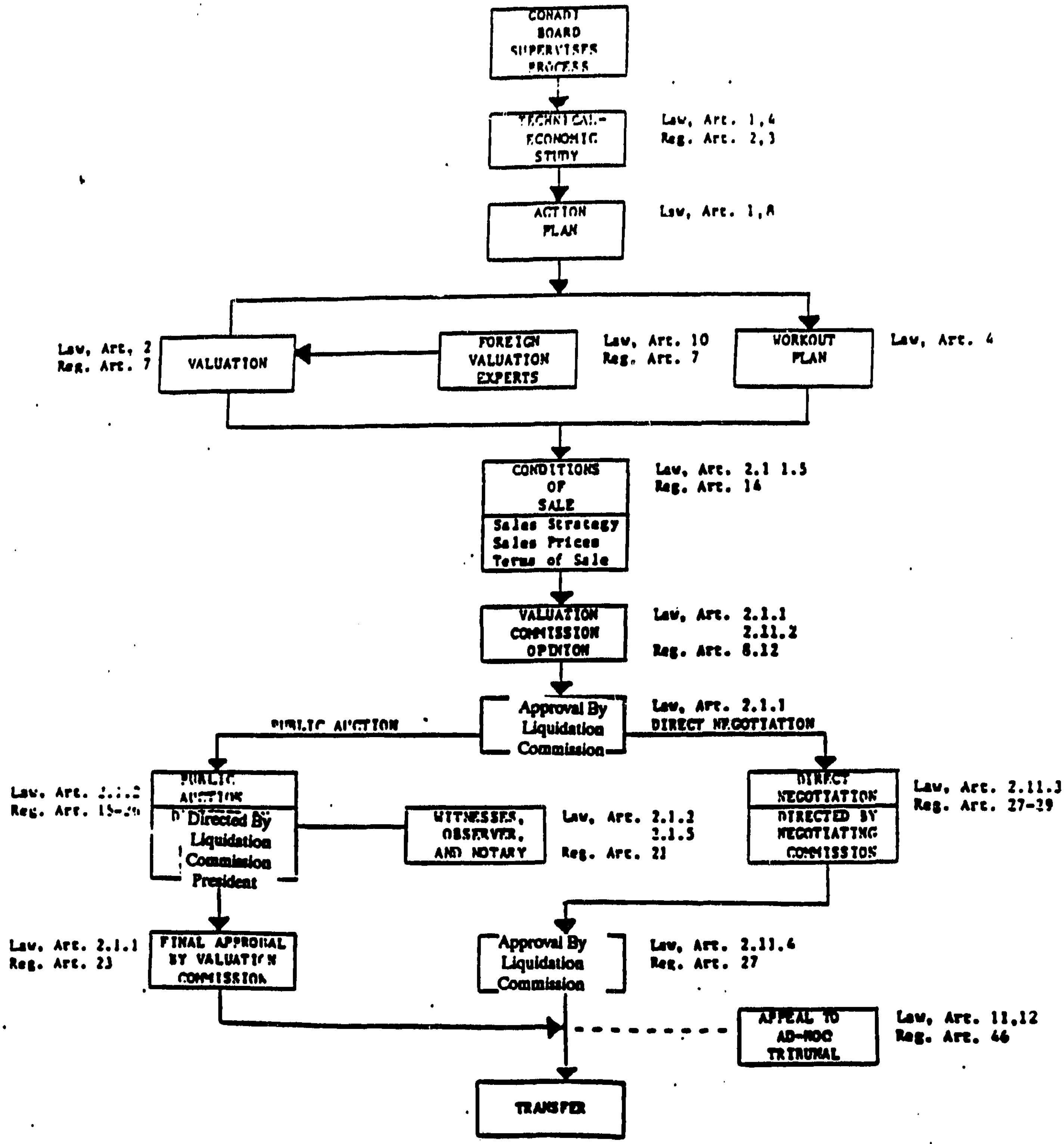
The unions are equally unconvinced about the benefits of ESOPs. Their argument is that workers cannot get enough capital to buy out SOEs, especially the larger ones. The happens to be a genuine problem. In the case of the Ministry of Natural Resources, for example, the employees and supervisors have been attempting to accumulate enough capital to purchase the seed processing operation. However, even when they pool their pension funds and severance pay, they are unable to acquire the necessary amount. At the same time, the banks will not provide loans, as they are not used to this kind of transaction.

The unions have not checked their facts, although some of their concerns are legitimate. While some leaders expressed a misguided belief in agrarian reform and "commercialization" as the solution to Honduras economic crisis, they also indicated they would look more favorably on privatization if the project were, in their words, more concertado, or consensual, taking more into account their concerns and needs.

2. Institutional Performance

Several institutions are involved in the privatization process (see Diagram). While this makes the system itself cumbersome, it also insures a healthy degree of transparency to guard against excessive corruption. This is critical, as the government needs the political support of the public if it is to be able to expand privatization to the public service institutions. That can only be gained by

OVERVIEW OF DIVESTITURE PROCESS
ACCORDING TO LAW 161-85 AND REGULATION 947-85



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developing the perception of a process that is relatively free of irregularities. It is also important if denationalization is to achieve the stated goals of economic growth and jobs. Turning over SOEs to incompetent private managers is as bad if not worse than permitting them to continue to consume public funds.

The purpose of this evaluation is not to assess the performance of all the institutions involved in the privatization process, but rather describe how they affect the outcome of the project's goals.

a. <u>The High Level Privatization Commission</u>

The High Level Privatization Commission (PC) is the reborn Privatization Commission established in the Azcona administration. It is considerably, though not sufficiently, strengthened. The chairman of the Commission is now a respected businessman who holds the equivalent rank of minister without portfolio. While ostensibly he is in charge of coordinating the privatization process, the fact is that he has no executive staff to support him, aside from the TWG which is an expatriate advisory group. In addition, his business responsibilities prevent him from devoting the time required to managing what should be a full-time operation. This could be offset, however, if he had the equivalent of a permanent secretariat. Finally, the chairman still has no binding authority over any of the other entities involved in the privatization process. This is especially true with respect to the Liquidation Commission, which has proven to be at best ineffectual, at worst insensitive to standards of professional behavior and lacking in a well developed sense of propriety.

At the same time the new PC was established, the President created the Privatization Technical Office (PTO), originally located under the Ministry of Finance, and charged with helping to coordinate the privatization process. It was eventually removed from the MOF's purview and placed under the PC to serve as the Commission's staff. The PTO did not work out well[8], created yet another organization in the process, and recently was disbanded.

The potential importance of the PC (and the need for more authority) can be illustrated by the present situation in CONADI. In the past eighteen months, only one SOE has been sold. This is due to a variety of factors, to be discussed. But the fact remains that had an authoritative PC been in place, it could have resolved many if not all of the still pending privatizations, moving the project off dead center. As it stands now, the chairman of the Liquidation Commission, who is also director of CONADI, is the sole authority able to make and enforce binding decisions on assets to be divested.

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[8]See "Institutional Analysis," USAID/H, 1991 for a detailed review of the PTO.

b. Valuation Commission

The Valuation Commission (VC) is comprised of five members, one from the private sector, appointed by COHEP, and four respectively from the Ministry of Finance, the Central Bank, the Comptroller General, and the Agency for Administrative Propriety and appointed by the President of the Republic. It is instructive to note that the mid-term evaluation described a VC which functioned with few problems or delays in issuing its valuation opinions. Since the new administration took office, however, this has changed substantially. The TWG prepares the valuations of assets for CONADI which sends them on to the VC for review and establishment of a "base price." While disparities in the two valuations generally existed, in the past eighteen months the differences have been more noticeable. In addition, both the TWG and VC (i.e., its chairman) have produced divergent valuations, resulting in long delays due to the need to reconcile differences.

Part of the problem may be attributed to different valuation methodologies (although technically the VC does not value assets but reviews valuations). The chairman of the VC indicated the Commission is changing methodologies. However, the VC needs to use the same methodology to review TWG/CONADI valuations in order to be able to make compatible judgments, or at least come to terms with the TWG over a mutually acceptable methodology. An example of the problem, and perhaps the lack of technical expertise on the part of the VC, may be seen in a dispute with Ernst and Young, contracted by the TWG to value Cementos de Honduras (see Annex B). It is clear that the VC was unable to distinguish between a going concern and a bankrupt company with an operating industrial unit. Neither did it interpret correctly the valuation of the equipment nor the pricing of the entire assets.

Aside from issues of technical competence, there exists a problem in communication. Although the TWG complains that the VC delays in issuing opinions, there is a similar lack of responsiveness on the part of CONADI, which is unable to act expeditiously or decisively. In the case of ACENSA, for example, it took the VC seven months to get a response from CONADI on a valuation, despite requests to the chairman of the PC for his intervention. Moreover, because of already documented incompetence on the part of CONADI, legal clean- ups of SOEs are unduly long.

While the problems of communication, technical competence and management of CONADI and the VC speak for themselves, the situation is another example pointing to the absence of an authoritative PC able to expedite and coordinate the privatization process, resolving these kinds of disputes. Ultimately, it is the administration which must demonstrate the necessary leadership by vesting the PC with the necessary power to act as the central authority in the privatization process.

c. Liquidation Commission

The Liquidation Commission (LC) was established by statute in 1990 to oversee the dissolution of CONADI within a three year period. In effect, it replaces the CONADI board of directors with the equivalent of three masters, the Junta Liquidadora. The president of CONADI became the chairman of the LC, retaining his original administrative role and powers. What makes the LC so significant is that it represents a determination by the President of the Republic to liquidate CONADI once and for all. By establishing a fixed deadline, it ostensibly forces CONADI to divest its assets. In reality, however, the process has slowed to a trickle, and only one SOE has been sold since the LC was created. While this is most likely a combination of a stalling tactic on the part of CONADI staff in an attempt to save their jobs, coupled with a strong dose of mismanagement and lack of follow-up from the presidency, the fact is that CONADI will legally cease to exist in 1993, its remaining assets assigned to agencies elsewhere in the GOH.

d. CONADI

By almost any measure CONADI has been a failure, since 1990, in carrying out its mandate to privatize. The CONADI president and board have been replaced by the Liquidation Commission (LC), created by the present administration to oversee final dissolution of the parastatal within three years. The CONADI president is now chairman of the LC and in effect the CEO of the parastatal. The management of CONADI has been substandard. After eighteen months in office, the CONADI leadership has been able to privatize only one SOE. The organization is plagued by delays in legal and financial clean-ups. While the Liquidation Commission chairman blames staff for not wanting to move more efficiently, in order to delay the inevitable abolition of their jobs, the fact of the matter is that most of this same staff was able to produce virtually all the CONADI privatizations prior to the current administration.

In all fairness, external obstacles to divestiture do exist. These include a complex and bureaucratic privatization process, legal delays imposed by the courts in settling clear title, and even campesino invasions of SOE lands. Nevertheless, the management of CONADI has consistently demonstrated a high degree of incompetence. Two of the more egregious examples of poor management are DESATUR and Aceros Industriales.

In the first case, the DESATUR resort complex was offered at auction by CONADI at Lps. 95 per share in 1989. The only tender received was from Banco Atlantida at Lps. 72. CONADI decided the offer was insufficient, but never officially informed Banco Atlantida. CONADI then proceeded to publish a second series of advertisements offering the asset for sale. A local investor tendered an offer of Lps. 110, which was accepted by CONADI. After several months, it was apparent that the investor was unable to raise sufficient capital to consummate the purchase of DESATUR. In the meantime, CONADI received a new offer from Banco Atlantida at Lps. 112. CONADI accepted, but once again failed to notify the original investor who protested to the Attorney General. After a period of months, the Attorney General ruled in favor of the original investor. CONADI has now annulled all negotiations and disposition of the asset is still unsettled. This situation could have been avoided entirely had CONADI followed simple established procedures by formally advising the investor (and Banco Atlantida) of its decision to accept another offer.

CONADI holds a first mortgage on Aceros Industriales, and the Central Bank holds a second lien. This has caused a dispute between the two agencies with respect to who has the initial rights to the proceeds from an eventual sale of the SOE. The president of the Central Bank is legally required to exercise the institution's "rights" in the matter and is personally liable if he does not. While it has been suggested that CONADI agree to deposit earnings from the divestiture of Aceros in an escrow account, either in the Central Bank or Ministry of Finance, until the issue of who has rights to the proceeds can be settled in court, the chairman of the Liquidation Commission refuses to agree to such an arrangement. He claims that he is protecting the "people's money." The fact of the matter is that his intransigence has effectively frozen sale of the asset. In addition, the chairman has yet to seek a meeting with the Bank president, although this situation continues unresolved for almost one year.

The chairman of the Liquidation Commission does admit to the need to "organize ourselves better." However, his actions (and inactions) to date appear to have done little to meet that need. The description of CONADI's institutional capacity presented in the mid-term evaluation remains basically unchanged today. If anything, certainly as measured by results, CONADI has performed even worse during the past year and a half. While some argue that the first ten divestitures were the easiest to consummate - and indeed, this was consistent with the project's strategy - the remaining assets currently targeted for denationalization have not been sold primarily because of incompetence or unwillingness, not lack of investor interest, as can be seen in the examples cited.

Prior to the present administration of CONADI, the TWG had developed a close working relationship with CONADI staff. This helped produce significant results in meeting project goals. However, the present CONADI manager, or chairman of the LC, has chosen not to keep the TWG fully informed of CONADI activities, and only seeks its expert assistance sporadically. As a consequence, not only has CONADI failed to perform, but it has begun to compromise the transparency of the privatization process itself.

Those agencies and organizations working with CONADI uniformly complain of poor management, delays and general incompetence. It is hard to escape that conclusion, especially in light of the successful privatization efforts undertaken elsewhere in Honduras, including those at SECOPT, COHDEFOR and IHSS.

e. Technical Working Group

Since the mid-term evaluation, the TWG has undergone a complete turnover in managerial and technical staff. The problems internal to the TWG and cited in the previous evaluation have by and large been overcome. Management of the Group has improved considerably. Marketing and promotional efforts are now generally more streamlined and professional. Yet despite these advances, the privatization process itself has bogged down. The GOH, while committed to privatization, has not provided the necessary consistency in exercising leadership, nor has it been able to provide strong policy management. As a consequence, there has been little follow-up, permitting the various institutional actors in the process either to founder or act autonomously from each other. This makes the tasks of the TWG all the more difficult. For example, while the TWG has been completing its valuations in a timely manner, CONADI has dragged its feet in submitting them to the Valuation Commission. In turn the Valuation Commission has consistently set higher, sometimes much higher, valuations than the TWG[9], resulting in further delays as a final base price is negotiated. While the VC chairman attributes this in large measure to differences in methodologies, it seems equally convincing that there exists a felt need to value state patrimony at politically acceptable levels.

These delays make it all the more difficult to ready assets for sale. Thus the problem in marketing is not so much a lack of promoting investor interest as it is an institutional inability (or unwillingness) to finish the requisite preparatory steps in a timely and complete fashion. The TWG faces similar problems in working with CONADI in completing the legal and financial restructuring of companies.

It is unfortunate that the TWG has not been able to maintain a more comprehensive and reliable data collection capacity. However, the fact that the companies which have been privatized are under no obligation and, in most cases, refuse to provide information, makes collection of impact data virtually impossible.

3. Policy

Aside from the policy inconsistencies cited earlier in this report, measurable movement toward the expansion of the initial project as a policy has taken place. Indeed, one of the criticisms was that in its first two years of operation the privatization initiative was a project in search of a policy. Still, more needs to be done.

[9] Comparative valuation data were available for seven SOEs. The Valuation Commission consistently set base prices in excess of the TWG/CONADI amount, except in the case of Contessa Industrial, where both valuations were identical.

The GOH presently has created what amounts to a de facto privatization policy. That is, its support for privatizations in SECOPT, IHSS and the Ministry of Natural Resources, for example, has helped move the process beyond the confines of Decree 161-85, which limited denationalization to specific parastatals - CONADI, COHDEFOR and BANADESA. What makes this so significant is not only that privatization has been expanded, but that it has resulted in the divestiture of parts of public service agencies, long considered to be the acid test for privatization. Moreover, this has been achieved without benefit of explicit statutory authority. The GOH now has to face the choice of continuing this implicit policy as it is, or codifying it into law. If it chooses the first course, it may run into legal challenges. If it selects the latter strategy, it could untie a Gordian knot of opposition.

Thus, while the GOH can be faulted for not providing effective policy management and consistency, strong follow-up, and clear direction, it has been able to achieve a major goal by extending privatization to public services. It is essential to note that in the case of SECOPT and IHSS, the availability of USAID local currency funds to underwrite severance pay for displaced workers was key. Without this support, these privatizations would not have occurred.

Finally, the GOH still appears to confuse privatization as both an end and a means. Some senior officials speak as if the administration's goal is to engage in wholesale privatization as a goal in itself. This is not only not the intention of the project, it is risky and ultimately impossible. The government could help to focus efforts to privatize more effectively if it defined precisely its goals and explained denationalization as one of a set of strategies geared toward promotion of economic growth and employment generation.

V. Sustainability

A. GOH Commitment

The present administration appears committed to privatization, although the lack of action on resolving outstanding issues at CONADI casts some doubt on the extent of that commitment. In addition, the policy and management ability of the GOH in the privatization process have been called into question. By contrast, privatizations in SECOPT and IHSS are evidence of serious presidential support for expanding denationalization efforts. The major problem, however, continues to be CONADI. If the President is willing and able to give the Privatization Commission the authority and resources it needs to function effectively, then there is a good chance that progress will be made in CONADI. Similarly, if the administration is able to continue to expand privatization, as it has been doing, then even greater success will be achieved.

B. Post-Aid Funding Impacts

Positive post-AID funding impacts are virtually guaranteed, given the fact that privatized companies are in operation, generating sales, exports and tax revenues. It is unlikely these enterprises will automatically fold when AID ceases to fund the project. To the contrary, they may even grow. Their success, or failure, depends on the market and management, not on AID. After all, that is the goal and benefit of privatization.

Given the time spent already on attaining present results, it is estimated that additional actions to insure the positive impacts of the project are sustained would require continued funding of the TWG, at least for a period of three years, and assurances that sufficient funds will be available to cover severance payments.

VI. FUTURE DIRECTIONS

A. Relevance of the Project

The findings of the economic analysis speak for themselves. There has been a significant net economic gain as the result of the privatization project. The relevance of the project, it is assumed, was determined prior to its initiation and was one of the main reasons it was funded. Its impacts have justified that assumption.

It should be obvious from both this evaluation and the mid-term assessment that the project design correctly identified and addressed the development constraints. Indeed, the mid-term evaluation already indicated that the project design was well conceived. Similarly, the development constraints continue, to some extent, to be "germane to the development strategies currently supported by AID in Honduras," as is evident throughout the text and in the team leader's interview with the Mission Director.

B. Project Design

The "basic assumptions of the project design" were extremely precise. The project design and strategy worked well and according to plan. The fact that the process was designed with a number of institutional checks and balances helped maintain its integrity. While this resulted in a complex system, it produced effective outcomes, at least in the first two years of operation. Similarly, the strategy of privatizing the "easier" assets to achieve relatively quick successes worked well. Problems that were encountered were not a factor of the project design but rather the result of virtually inevitable politics and, in the case of the present GOH administration, weak management. No changes in the project design would have creased the effectiveness, efficiency, impact and sustainability of the project."

The SOW asks if the project approach is "suitable for wider use." In a word, the answer is yes. The project has been successful, although not without its problems. Put into the appropriate political, cultural and economic context, however, the project's achievements are all the more noteworthy, and should be useful in guiding similar initiatives elsewhere.

VII. Conclusions

Overall, the project has stagnated, at least with respect to the divestiture of CONADI assets. However, in other ways the project is working well and, in some ways, exceeding original expectations. What was once described as a project in search of a policy, has now begun to expand beyond statutorily targeted parastatals to include public service agencies, effectively creating a de facto privatization policy. In addition, the privatization process itself remains intact. The reason only one divestiture has been carried out under the present administration is twofold. First, CONADI management is extremely inept, disengaged and lacking in professional judgement. Decisions are not made or postponed, staff is not provided direction and leadership, and procedures are disorganized. Second, the Privatization Commission has not been given the legal authority to require CONADI (i.e., the Liquidation Commission) to make decisions against specific deadlines or otherwise compel the other institutional actors involved in the process to comply with their mandates. This is particularly the case with respect to the Valuation Commission which continues to issue valuation opinions in excess of market realities and, at times, based on methodological inconsistencies.

Other, specific conclusions include:

- The political commitment to privatization on the part of the administration is somewhat mixed. Moreover, the management ability to move the process forward is lacking. This has impeded seriously divestiture of CONADI assets, as the chairman of the LC, through mismanagement, poor judgment and questionable actions continues to delay privatization of his SOE portfolio. This is also the case with BANADESA and, to a lesser extent, COHDEFOR.

- Nevertheless, significant strides have been made toward expanding privatization as evidenced in the divestitures taking place in SECOPT, IHSS and the Ministry of Natural Resources, demonstrating what amounts to an uneven application of the administration's privatization strategy.

- Although an evaluation is not an audit or inspection, the seriousness of irregularities discovered at CONADI, for example, Cementos de

Honduras and INACERO, warrants specific comment. The mid-term evaluation indicated that the transparency of the privatization process was intact. However, since that time, it has become increasingly evident that the integrity of the project is being compromised by injudicious actions on the part of the Liquidation Commission.

- While a de facto privatization policy exists, it needs to be codified in order to be enforceable. In addition, economic policies and bureaucratic practices which conflict with the goals of privatization need to be identified and reformed. Similarly, the GOH needs to make a clear distinction between privatization as a goal itself and privatization as one of several key strategies to promote economic growth and jobs. This is especially important in mobilizing public and union support.

- The economic benefits of privatization are clear and significant. The project has resulted in the creation of jobs, reductions in the fiscal deficit, increases in export and foreign exchange earnings and improvements in the balance of trade. The net value added of the project has amply justified USAID/H investment.

- Opposition to privatization, particularly from organized labor, has been desultory and moderate. In the case of SECOPT, for example, one third of the workforce was laid off without a major confrontation with the unions. In return, a small number of specific jobs were retained, a favorable trade-off by any measure. While labor continues to take a stand against privatization, it has not been very forceful or effective. This is significant because much stronger opposition was anticipated as the project sought to expand into public agencies.

- The use of local currency to underwrite severance pay has proven to be an essential ingredient for success. Without this valuable resource, it is highly unlikely that the achievements of the project would have been so significant.

- As consistent with the project design and strategy, USAID/H and the TWG have maintained a low public profile. This has proven to be very effective in establishing the project as a Honduran initiative.

Recommendations

The evaluators were asked to put into priority order a list of recommendations. While that has been done, it is necessary to underscore the fact that the differences between and among priorities is minuscule. That is, the recommendations should be considered as a complete set.

- It is imperative that the Privatization Commission be invested with adequate authority to be able to make binding decisions in order to manage the privatization process effectively. The Commission also should have its own permanent staff. The chairman should be made Minister of Privatization (instead of Minister without portfolio), and have a Vice Minister who would be responsible for day-to-day operations, with a small professional staff. This would produce several important advantages. First, it would retain the present chairman, whose authority would be enhanced, but who would have the staff capacity actually to manage the process. Second, the Vice Minister, by virtue of his position and title, would also have the requisite status to act authoritatively over the various institutional actors involved in the process. Third, this would result in greater efficiencies without compromising the integrity of the process.

- The Liquidation Commission should be dissolved immediately and the Privatization Commission empowered to divest CONADI's holdings through competitively bid contracts with qualified auditing firms which would be paid a market rate plus incentive bonuses.

- The expansion of the process to include privatization of parts of public agencies should proceed. While it would be desirable to codify into law what is currently a de facto policy of privatization of public services, it is more important to pursue strategies which produce results. USAID/H should study the SECOPT case closely to use as part of the basis for developing the project design for Phase II.

- The local currency severance pay pool should be expanded as necessary to cushion lay-offs due to divestiture. This has been a key success feature of the project.

- Creation of ESOPs as a privatization vehicle is very attractive, both politically and economically. However, as workers appear to have difficulties in securing sufficient financing, USAID/H should consider exploring with the GOH ways in which the public entities involved could help finance their own privatization.

- It is essential for the GOH to review its economic and related policies to bring them into conformity with respect to efficient promotion of privatization, eliminating inconsistencies.

- As the privatization efforts are expanded, increased union opposition may develop. To help forestall that possibility, present efforts in communicating with selected labor leaders should be maintained. In addition, the GOH should incorporate useful suggestions on the part of labor into future divestiture strategies, effectively making union leaders stakeholders in privatization. At the same time, the administration needs to make clear what its vision of and for privatization is. One part of that should be protection of worker rights through guaranteed minimum wages. Another important effort should be to bring together the private sector, through COHEP, and labor to discuss and agree upon mutual benefits of privatization. Care, however, needs to be exercised not to move too openly. That is, what "ain't broke" should not be fixed.

Lessons Learned

Most of the lessons learned are implied in the conclusions and recommendations. Nevertheless, there are several points which merit emphasis.

- Clear and determined presidential leadership is essential for a privatization project to succeed. This needs to be manifested in the establishment of a strong central mechanism, invested with the appropriate binding authority, to coordinate the process and insure all institutional actors fulfill their respective mandates.

- The setting of realistic goals and expectations is essential to the performance and impact of privatization projects.

- The political environment is perhaps the most important determinant for the success or failure of privatization. Not to deal with the politics of privatization would be fatal.

- Privatization should be considered one of several means toward economic growth and development, not an end in its self. Put into realistic context it can be an effective strategy for revitalizing economies and sustaining growth. By the same token, this approach makes privatization a practical remedy rather than an ideological imperative.

- A central authority empowered to manage the privatization process is essential. A "Privatization Czar," preferably of ministerial rank, should be named and have adequate staff support.

- The role played by severance payments is key. This effectively blunts criticism from organized labor and cushions the impact of lay-offs.

- Not all SOEs can or necessarily should be privatized. Some non-performing assets are insufficiently attractive for investors and should be shut down to avoid consuming expenditures to maintain them. Others, particularly public service agencies, may lend themselves to real management reforms, thereby producing greater productivity, one of the principal goals of privatization. Where the national climate is such that it would be politically counterproductive to privatize selected agencies, rationalization of their operations can be an effective alternative.

- Where circumstances permit, there is a need to maintain an adequate data base on privatization. There is no other way to track the economic benefits.

- Once again, it is important to repeat the need for an open privatization process with built-in institutional checks and balances. While this means somewhat less efficiency, it virtually insures integrity and credibility. There will always be efforts to subvert or evade the established process, and a transparent system is the best guard against this threat.

- Effective technical assistance requires a low profile.

ANNEX A

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PERSONS INTERVIEWED

Andres Victor Artiles, CTH

Ing. Jose Enrique Ayala N., Director General de Mantenamiento de Caminos y Aeropuertos, SECOPT

Lic. Rene Bendana M., Presidente, Junta Liquidadora

Paul Davis, USAID/H

Neptali Garcia, Secretary General, Honduras Worker Confederation

William Laing, Director, TWG

Lic. Pofirio Lobo S., General Manager, COHDEFOR

Roberto Antonio Madrid, RAM

Ramon Medina, Minister of Economy

Cesar Montes L., Private Sector Representative Board Member, Privatization Commission

Enrique Paredes

Jose Antonio Perez, COHEP Representative on Valuation Commission

Valdemar Ochoa, Chairman, Valuation Commission

Carlos Ridel, Manager, Canal

Yolanda Rivera, TWG

Jose Romero, Central Bank Representative on Valuation Commission

Miguel Valladares, Comptroller General Representative on Valuation Commission

John Sanbrailo, Director, USAID/Honduras

Ricardo Zablah, Chairman, Privatization Commission

ANNEX B

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ERNST & YOUNG

International Management Consulting
1010 North Glebe Road
Arlington, Virginia 22201

Marzo 15 de 1991

Sr. Don
Victor Paz
Oficial de Proyectos - USAID/H
Tegucigalpa D.C.
República de Honduras

Ref: Memorando de Cementos de Honduras

Estimado Victor:

Con gran sorpresa hemos revisado el memorando de fecha 18 de febrero de 1991 (sin firma) remitido a la Misión de A.I.D. en Honduras por la empresa Cementos de Honduras S.A., con relación al avalúo realizado por nuestra empresa segun Orden de Compra No.P.O. 522-0289-0-00-1018-00 del año en curso.

Aunque a la fecha de la presente nota nuestro informe ya fué discutido con las autoridades del Gobierno de Honduras, incluyendo altos directivos de la empresa, hemos considerado necesario responder a los comentarios planteados en dicha comunicación, para evitar confusiones respecto al tema.

En primer término, el memorando se refiere a discrepancias entre - "la valuación de la administración de Cementos de Honduras" y el informe presentado por nuestra firma. Hasta donde tenemos conocimiento la administración de la empresa no ha llevado a cabo una valuación independiente; además, de haber existido, dicha documentación debería haberse discutido con nuestros consultores.

De cualquier manera, se argumenta que nuestro reporte presenta el "valor de reposición ajustado" y que esto solo es válido si se están vendiendo equipos y nó una empresa en marcha. Para quienes hayan tenido la oportunidad de leer el informe detenidamente es claro que en él se incluyen no solo el enfoque de costo sino tambien el de flujos de efectivo descontados, a pesar de que este segundo método no se pedía en los Terminos de Referencia del trabajo en cuestión. Además, se contemplan en dicha metodología tres escenarios distintos de valoración, uno de los cuales asume precios de Lps.280/TM que es el mayor nivel al que se estimó podrían ascender los precios si se diera la liberación, sin quedar mas altos de lo que costaría importar.

Parece ser que de otra parte hay confusión entre el concepto de una empresa como negocio en marcha ("going concern") y el de una empresa quebrada que posee una unidad industrial en operación. La sociedad mercantil que existe hoy como Cementos de Honduras S.A.

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tiene mas obligaciones que activos y ese patrimonio negativo de Lps 81 millones hace que sus acciones valgan cero. No obstante, una vez saneada y bajo otra denominación social, la planta cementera en operación puede ser vendida a terceros y lógicamente tiene un valor, ...que es precisamente el que se mide a través de las proyecciones de efectivo descontadas a valor presente. En ellas se incluyen todos los elementos que hacen posible la generación de efectivo (mercado, marcas, personal entrenado, etc)... y que segun el memorando no se han tomado en cuenta.

Dejando de lado otros comentarios en que se mezclan los conceptos de los dos enfoques metodológicos aplicados, consideramos que hay dos puntos en la comunicación de la empresa que ameritan la mayor atención:

a) la correcta interpretación de la cotización de F.L.Smidth, proveedor de los equipos de la Expansión V; y

b) el valor que fija la empresa a los activos en cuestión de Lps.600 millones e.d. US$ 110 millones.

a) La cotización de F.L.Smidth

Como parte del procedimiento seguido en el enfoque de costo se pidieron cotizaciones a varios proveedores de equipos cementeros, entre los cuales se incluyó a esta firma danesa, que fue la que proveyó la Expansión V a Cementos de Honduras.

A todos los proveedores se les pidió cotizar no solo el equivalente a la que es la Expansión V (que en la industria se clasifica como el área de clinker) sino tambien aquellos elementos que en ésta planta habrá que remplazar por obsolecencia y que coinciden con lo que en la industria se denomina área de cemento. Tambien se les solicitó un desglose porcentual, por sección, a fin de evitar la doble contabilización en las comparaciones.

Como se puede ver en la información recibida de F.L.Smidth (copia adjunta), ellos no dicen que el valor de reposición de la planta sea de $ 113 millones! De una parte, quienes elaboraron el memorando se equivocaron al aplicar los porcentajes de la cotización de F.L.Smidth, ya que incluyeron doblemente la subestación eléctrica y los centros de control de motores (MCC), así como el sistema de control central. En efecto, al revisar los cálculos anexos al memorando se constata que esos valores se incluyeron primero dentro de los $ 45.5 millones, y luego como porcentaje aparte (veáse Anexo 1). En realidad el cálculo debería dar alrededor de $ 91 millones.

Pero lo mas significativo no es eso. Lo trascendental está en que la cotización de F.L.Smidth se refiere a una planta NUEVA, no solo en los equipos del área de clinker (que es lo equivalente a la Expansión V) sino tambien en el área de cemento, que en el caso de

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Cementos de Honduras S.A. es equipo de mas de treinta años. Por lo tanto, si se siguen las proporciones que recomiendan los diversos productores de plantas cementeras (de que el área de clinker constituye típicamente unas dos terceras partes del total y el área de cemento la tercera parte restante), el valor de la Expansión V debe ser de aproximadamente un 66% de los $91 millones, es decir de $60 millones. Dado que además la Expansión V data de 1980 y ha tenido al menos un par de años de uso y algunos percances, reparaciones etc., es necesario ajustar su valor por depreciación.

Como es lógico F.L.Smidth no está expresando opinión alguna respecto a la parte vieja (área de cemento) de la planta, sino que se limita a dar lo que solicitamos: una cotización de lo que podría costar modernizar dicha área.

Aunque los procedimientos que se usaron en el avaluo fueron mucho mas rigurosos y detallados que una sola cotización, adjuntamos una comparación gráfica entre los datos derivados de la cotización de F.L.Smidth y la realidad de la planta de Bijao, a fin de aclarar este punto.

b) Valor que recomienda Cementos de Honduras

Despues de haber analizado la cotización de los proveedores y aún si se pensara en que esta podría estar baja....no tendría ninguna lógica pretender que la planta de Bijao tuviera un valor de reposición mayor que el de una planta nueva!

De otra parte, es importante recalcar que al hacer las simulaciones financieras se utilizaron los supuestos mas optimistas en términos de producción, precios y ventas etc. así como los parámetros que nos proporcionó la Gerencia General (incluidos en el Anexo # 3 del Informe). Aún así, el valor de la planta en operación no llega al nivel del valor de reposición ajustado.

Que características tendría que tener la empresa para que su valor ascendiera a Lps.600 millones o US$110 millones como negocio en marcha ? Muy a groso modo se pueden hacer algunos cálculos para ver que tan realista resulta dicho estimado. Suponiendo un retorno a la inversión esperado de un 15% despues de impuestos, la empresa tendría que generar utilidades netas de unos Lps 90 millones anuales (despues de impuestos) para que capitalizando al 15% se llegue a los Lps.600 millones deseados:

Lps.90,000,000 / 0.15 = Lps. 600,000,000

Con una utilidad operativa de menos de medio millon anual el año pasado y un estimado optimista de unos Lps.20 millones anuales segun nuestras simulaciones financieras, la cifra no parece probable. Pero la cosa se complica un poco mas si se analiza la relación utilidad neta/ventas. A cuanto tendrían que llegar las

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ventas de la empresa para poder generar una utilidad neta de esa magnitud ?

Segun los índices que publica el Almanac of Business & Industrial Financial Ratios, las utilidades netas solo alcanzan cerca de un 8% de las ventas netas en esta industria, en el mejor de los casos. No obstante, aun suponiendo que la empresa pudiera obtener digamos un 20% de utilidad sobre las ventas netas, esto querría decir que tendría que tener ventas anuales de:

Lps.90,000,000 / 0.2 = Lps.450,000,000

Para poder alcanzar un nivel de ventas anuales de Lps.450 millones, la empresa tendría que tener unos precios muy favorables.... digamos de Lps.280/TM o $52/TM que es un 20% por encima de los precios actuales.....de esta forma, tendría que vender:

Lps 450,000,000 / 280 Lps/TM = 1,607,140 TM

El problema es que la empresa no tiene capacidad para producir sino un volumen de 600,000 TM de clinker por año si logra trabajar al 90% de capacidad. Es decir, que necesitaría poder producir casi tres veces el nivel de su capacidad instalada.

Como se puede apreciar por las consideraciones anteriores, el estimado de Cementos de Honduras S.A. no parece ser confiable. Estamos convencidos de que el memorando en cuestión no se discutió en detalle con el personal técnico de la empresa (del cual tenemos una impresión profesional muy favorable) antes de ser remitido a la A.I.D./ Honduras.

Esperamos que las explicaciones que anteceden hayan contribuido a despejar las dudas que se reflejan en el memorando aludido y sin otro particular, aprovechamos para saludarlo.

Muy atentamente,

JORGE F. SEGURA
Senior Manager, IMCG

cc: Lic. Warren Valdemar Ochoa, Presidente Comisión de Dictámen de Avalúo

Ing. Guillermo Verhelst, Grupo Técnico de Trabajo

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Telefax

Ms. [illegible]
Arlington VA
USA

Fax No. 009 1 703 243 4221
Date: 28.01.91
Ref.: ARO/AR/802.3-1035
Page: top + 1

Att. Mr. Jorge F. Segura

Subj.: Yr telefax Jan 08, 1991
<u>Cost estimates for cement plant equipment</u>

We are pleased to give you the below shown rough Price Estimates on FOB basis. The prices refer to the types of equipment which you specify, including the necessary auxiliary equipment such as motors, compressors, conveyors, bricks and grinding balls which may be part of the specific department.

		USD millions	
a)	Crushing dept. 500-600 t/h	2,0	$33 MM
b)	2 circular preblending stores each 18,000 t	3.0	
c)	Duodan mill dept. 3000 kW	7.0	
d)	Unax kiln/preheater 2000 t/d	10.0	
e)	Pricipitator & gas handling equipment	3.0	
f)	Homogenising silo 10,000 t + kiln feed	2.0	
g)	Control system for the above	2.0	
h)	Power substations and MCC	4.0	
	Additional equipment/depts.		
1	Clinker silo 50,000 t, incl. transport equipment before and after	1.5	$12.5 MM
2	Cement mill dept. 150 t/h, 3000 kW, incl. feeding and pumping to silos	7.0	
3	Bulk loading 2 x 150 t	0.5	
4	2 bagging installations each 125 t/h, incl. truck loading conveyors	2.0	
5	Power substations + MCC	1.0	
6	Control system for the above	0.5	

Total = $45.5 MM

F.L.SMIDTH - 77, VIGERSLEV ALLE - DK-2500-VALBY-COPENHAGEN-DENMARK
Telefax:+45-31-174722 - Phone:+45-36-181000 - Telex:16419 flsto dk

Telefax	Date: 28.01.91
To: Ernst & Young, VA, USA	Ref.: HKo/AR/SD2.1-1035
	Page: 2/2

Cost estimates for cement plant equipment

Below for your guidance we have listed the main project categories and indicated their costs in % of the total

1	Mech. equipment + motors + auxiliary equipment	40% -50%
2	Power substation, motor control centres, cables	7%
3	Control system	3%
4	Civil design and construction	25%
5	Mech. and elec. erection	18%
6	Ocean freight	5%
7	Field supervision minimum (non turn-key)	2%
	TOTAL	100%

The above precentage relates to the complete plant from crushing to packing of cement. The percentage cannot be applied as a guide for each section, for instance the civil work for the 50,000 t clinker silo is many times more costly than the equipment cost for the same.

Time has unfortunately not allowed us to enter into a detailed study and cost estimates of each department for the various categories of the project but we hope the above will be of some use for your cost evaluations.

Best regards,
F.L.SMIDTH & CO. A/S

Hans Koefoed

Hans Koefoed

F.L.SMIDTH [illegible] VIGERSLEV ALLE - DK-2500-VALBY-COPENHAGEN-DENMARK
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J.S

33MM + 12.5 MM = 45.50 MM!

incluye { 2.5 MM [illegible]
5.0 MM [illegible]

ANALISIS DE INFORMACION FL SMIDTH

-EQUIPO MECANICO MOTORES Y EQUIPO AUXILIAR	= ~~40%~~ 50%	= US	~~45.50~~	MILLONES
~~-SUB ESTACION ELECTRICA CENTRO DE CONTROL Y CABLES~~	~~= 7%~~	~~= US~~	~~7.96~~	~~"~~
~~-SISTEMA DE CONTROL~~	~~= 3%~~	~~= US~~	~~3.40~~	~~"~~
-DISEÑO Y OBRA CIVIL	= 25%	= US	28.44	"
-ERECION	= 18%	= US	20.48	"
-FLETES Y TRANSPORTE	= 5%	= US	5.69	"
-SUPERVISION	= 2%	= US	2.28	"
VALOR FABRICA TOTAL—	100%	= US	113.75	MILLONES

50% = $45.5 MM

Total = $ 91 MM

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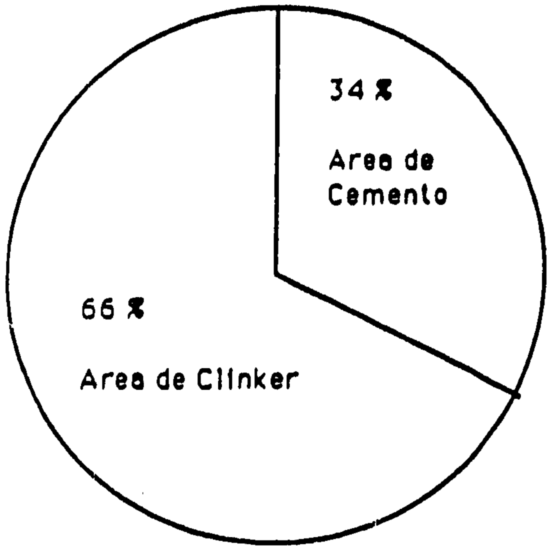
COMPARACION DE COTIZACION v.s. PLANTA DE BIJAO

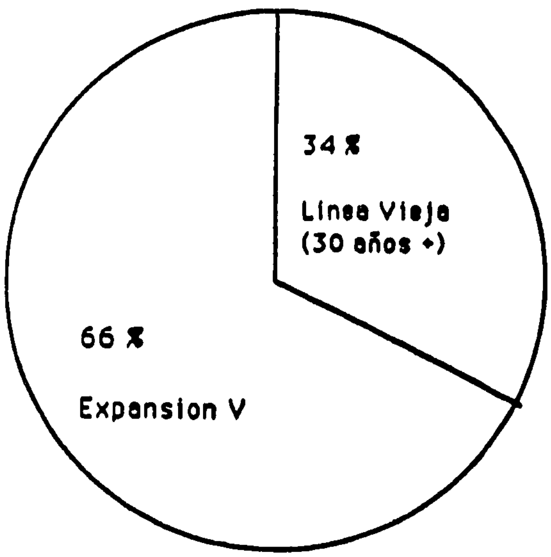
A. <u>Cotización de F. L. Smidth - Planta Nueva</u>



a) Area de Cliker = $ 60.06 millliones
b) Area de Cemento = $ 30.04 millliones

TOTAL = $ 91 millliones

B. <u>Planta de Bijao - Cementos de Honduras S.A.</u>



a) Expansion V = $ 60.1 Millliones
(-) depreciación física y functional
etc. aprox. 15%

= $ 51 millliones

b) Linea Vieja = $ 30.0 millliones
Vida útil est. < Vida real
luego Coef. de Vida = 0.10 - 0.15

= $ 3.0 - $ 4.5 millliones

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ANNEX C

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PRIVATIZATION OF STATE-OWNED
ENTERPRISES

LOGICAL FRAMEWORK

SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
A.1 Goal To contribute to the achievement of long-term equitable growth	A.2 Measurement of Goal Achievement Improved economic and fiscal performance as a result of privatization actions, measured by: a. Present value of GDP flows originating in privatized enterprises increases by L30 million by 1992. b. Tax revenues increase by approximately L45 million by 1990. c. Interest payments to service GOH SOE-related debt increased by no less than L15 million by 1992.	A.3 (As related to goal) - Central Bank - Project monitoring - IMF Country Reports - GOH Reports	A.4 (as related to goal) - Continued economic, social and political stability in Honduras and Central Ameri - Continued improvement in policy environment for new investment.
B.1 Purpose To support GOH initiatives to plan and implement the privatization of state-owned enterprises	B.2 End of Project Status Between 12-15 companies privatized through divestiture; sale of assets; liquidation; and management contracts.	B.3 (as related to purpose) - Project monitoring - Consulting reports - Project Evaluations	B.4 (as related to purpose) - Existence of potential pri sector buyers of the compa and assets being divested. - Availability of credit and capital to facilitate the acquisition of companies a assets being divested. - Continued GOH support to t divestiture process. - GOH/private sector willingness and commitment to establish appropriate infrastructure support of companies being divested.
C.1 Outputs 1. Institutional Framework (Analytical support framework established. 2. Privatization suppor Components established.	C.2 Output Indicators C.1.a. TPC and PTU staffed and operational C.1.b. GOH establishes valuation Commission, Negotiating Commissions and other entities required by Decree 161-85 C.1.c. Global privatization plans approved C.1.d. Credit, severance payments, training and other support assistance provided to 8-10 firms.	C.3 (as related to outputs) - Project Monitoring - Project USAID records - GOH records - Audits	C.4 (as related to outputs) - Highly qualified T.A. available. - Local banks willing to par cipate in financing. - Valuable short-term traini opportunities in U.S., Lat American, and other countr will be identified.
D.1 Inputs	D.2 Budget/Schedule (US$000,000)	D.3 (as related to inputs) A.I.D. disbursement records and audit repots.	D.4 (as related to inputs) - Project authorized and fun alloted. - Project Agreement executed

D.1 Inputs		A.I.D.	GOH	TOTAL
1. Technical Assistance	1.	2,925	850	3,775
2. PTU Operations	2.	-	100	125
3. Commodities	3.	50	-	50
4. Training and Travel	4.	60	50	11
5. Support Components	5.	-	12,000	12,000
6. Project Liaison Officer	6.	380	-	380
7. Evaluation and Audits	7.	75	-	85
8. Contingency	8.	480	-	500
Totals		4,000	13,000	17,000

ANNEX D

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