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1985-89 PROJECT SUMMARY AND LESSONS LEARNED

## FINAL REPORT

IPAC TRADE PROMOTION SUPPORT TO FIDE  
under the  
U.S.A.I.D. HONDURAS EXPORT DEVELOPMENT  
AND SERVICES PROJECT

Prepared for:

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## I. INTRODUCTION AND LESSONS LEARNED

### A. Introduction

Under the U.S.A.I.D. Honduras Export Development and Services Project, FIDE Honduras (Foundation for Investments and Development of Exports) developed one of the most innovative and successful private sector trade and investment promotion programs in the Latin America region. IPAC, Inc. has been the major U.S. contractor for FIDE since the organization was created in late 1985. IPAC support to FIDE changed over time as FIDE has evolved and their requirements changed. The initial focus was on export development efforts in furniture and wood products, apparel, processed food, and light industrial products. Additional objectives included technical assistance, institutional development and training, and the development of other trade intermediaries. Over the past 18 months, priority has shifted to investment promotion, an area in which IPAC has been only tangentially involved.

The purpose of this report is to provide an overview, from IPAC's perspective, of the 1985-1989 Honduras promotion program and to discuss lessons learned which are relevant for FIDE, U.S.A.I.D. Honduras, and other U.S.A.I.D. missions involved in private sector development. Elements of the FIDE program with which IPAC was not directly involved, such as long term technical assistance, local financing, and the planning for the development of export processing zones, are not addressed.

This section summarizes the lessons learned and observations which are broadly relevant to private sector program trade development worldwide. Section II describes the FIDE program structure and major activities from 1985 to 1989, including lessons learned and observations for each phase of the program. Section III includes case studies of successes and failures in

the team's export and investment promotion efforts. The case studies cover furniture (mahogany and pine), wooden doors, cigars, snow peas, apparel, shoes, and a special section on U.S. legal problems faced by Honduran exporters.

The unique and innovative aspects of the FIDE trade development program are summarized below. The FIDE program:

- o Began with a small staff of individuals recruited from the private sector;
- o Adopted an approach which was client-based and deal-oriented;
- o Incorporated a close linkage between trade and investment promotion;
- o Began with multiple U.S. contractors, and evolved based upon evaluations of export achievements and new requirements;
- o Was based on partial cost-recovery and had a strong bottom-line orientation; and
- o Was effective at integrating marketing and technical assistance toward specific export goals.

## **B. Lessons Learned**

While specific case studies and lessons learned are discussed throughout the report, the following observations are applicable to most trade promotion programs in the developing world. Obviously, the size of the country's export sector and the export history are key factors in applying these lessons learned.

The lessons learned are grouped under three categories: Program Structure and Objectives, Program Implementation, and Contract Management. For each observation, we have indicated our rating of the Honduran program.

## 1. Program Structure and Objectives

Trade development is done more effectively through a private sector organization than a government agency.

Honduras Rating:      poor              fair              good              excellent

We share the conclusion of recent World Bank studies that government trade promotion organizations in developing countries are seriously ineffective in providing results-oriented trade promotion services. FIDE was established as a private corporation completely independent of the Honduran government. This created many advantages, the most important of which was the close partnership which developed with many Honduran companies and entrepreneurs.

The major objective of the program should be economic growth through export and investment development.

Honduras Rating:      poor              fair              good              excellent

Trade development programs can be vital contributors to economic growth. However, this objective must be clearly stated in project documentation, must be incorporated in the day-to-day decision-making of the trade development organization, and must be incorporated in the project evaluation. Local companies should be selected for assistance based upon their export potential, not on their political connections or financial need.

Institution-building does not, by itself, contribute to growth. Indeed, excessive preoccupation with institution-building may divert attention from the provision of results-oriented support to potential exporters and investors.

A promotion organization should start small and tailor its growth to its success in attracting clients and promoting exports.

Honduras Rating:      poor              fair              good              excellent

The primary reasons for a modest start is that it takes time to build export expertise among the local staff and credibility within the export community. Unrealistic expectations publicized too early can lead to the alienation of the businessmen who are the organization's key constituents.

Time horizons for trade and investment results must be long, normally in the 3 to 5 year range.

Honduras Rating:      poor              fair              good              excellent

As shown in the case studies, export programs take up to twice as long as originally anticipated. The major reason is that successful export programs require supply and "entrepreneurial" development, as well as market development.

FIDE contractors had an initial one year contract, and were expected to generate exports of 20 times the value of each contract (i.e. \$2 million for contracts of \$100,000). In contrast, the World Bank standard for export targets has been 10 to 15 times the contract value over a 3 to 5 year period; and, private trading companies often accept countertrade obligations in developing countries for a 5 percent commission (i.e. 20 times contract value), but over a 5 to 10 year performance period.

One result of the unrealistic project goal was the inefficient use of contractor time trying to achieve short term results during the critical start-up period of the project.

The program was evaluated during its second year. Based upon the low value of exports generated relative to expectations, the decision was made to shift to an investment promotion oriented program at just the time when an adequate foundation for export growth was being completed.

Trade and investment promotion should be linked in an integrated program and within a single institution.

Honduras Rating:      poor              fair              good              excellent

Although there is disagreement on this point among private sector promotion specialists, IPAC's conclusion reflects our experience, particularly for developing countries with a relatively small industry base. Where U.S.A.I.D. programs support an investment promotion agency, as has been the case in most Central American countries, the local export community has been largely ignored. In addition, most investment leads for Honduras were generated as a result of export promotion efforts in the apparel and wood products sectors. FIDE found it more efficient to target its efforts and the U.S. contractors on selected export clients, rather than on broad investment sectors. Finally, export growth builds a local industry base which is the key to economic growth and an important attraction for many investors.

While there is no doubt that investment promotion can be a large employment generator in countries with an adequate infrastructure of export processing zones, Honduras has lacked this infrastructure. While FIDE shifted to a program oriented toward investment promotion in the third year, export promotion was still pursued, although on a more selective basis.

The focus of an export promotion program should be on the private sector, with an understanding of market forces and realistic business planning.

Honduras Rating:      poor          fair          good          excellent

The export promotion program must be designed realistically to overcome the practical problems that prevent export and investment transactions from being concluded. The U.S.A.I.D. staff involved with FIDE were effective in maintaining a strong private sector focus. They also were aggressive in using broader business connections (e.g. a personal connection with the Chairman of Walmart) and U.S.A.I.D. Washington in support of the FIDE program.

Cost recovery should be an integral element of all export promotion services.

Honduras Rating:      poor          fair          good          excellent

In addition to the obvious supplement to program revenue, charging fees for services is effective for two reasons. First, it screens out the businessman who is not willing to pay even partial costs of a service, and who is thus not likely to be a serious exporter when additional investment costs are required. Second, it forces the trade promotion organization to ensure that its services truly add value to the exporter, and puts the organization in the "service marketplace" where they have to continually define and sell their services.

Full cost recovery is usually not achievable, except in cases where commissions can be earned on exports over a multi-year period. Fees should be determined through a combined assessment of the value added for a service and what the local market will bear.

## 2. Program Implementation

The promotion program should be flexible, and able to reallocate funds on a periodic basis in order to meet exporters' needs.

Honduras Rating:      poor              fair              good              excellent

Fixing the design of a project for its duration is a common error of donor agencies. Trade development organizations must have the flexibility to reallocate efforts, including the efforts of major contractors, based upon local needs and contractor strengths. FIDE proved adept at selecting an appropriate combination of contractors at key points in the program.

In addition, flexibility in providing short term financial and technical assistance can make the difference between successful export programs and unfulfilled export potential.

FIDE's "Intermediary Fund" was an innovative program which provided assistance in the U.S. and Honduras at the precise point where a difference could be made. This funding mechanism allowed FIDE to provide short term incentives and assistance such as: short term factory assistance; monthly retainer for promoters or traders; invitational travel for buyers; financial guarantees for sales representatives of new products (i.e. cigars); design assistance in furniture; label and package design in cigars and agribusiness products; application for UPC codes and trademarks; and coverage of legal costs for local firms confronted with fraud or bankruptcy of U.S. clients.

Technical assistance should follow the marketing programs for export-ready firms.

Honduras Rating:      poor              fair              good              excellent

Two types of technical assistance are typically provided to firms. The most common is long term technical assistance designed to prepare the firm for exporting. However, more important from an export perspective is focused technical assistance to address specific export opportunities. This can vary from supporting major structural and management changes to assisting with the production of samples and trial orders. The key ingredient is that the outcome of the assistance is the successful export of a specific product. Technical assistance should also provide a realistic assessment of what cannot be done.

Through the use of the Intermediary Fund and the International Executive Service Corps (IESC) program, technical assistance played a key role in the export of some products, notably shoes, cigars and furniture. However, most technical assistance was planned and implemented independently from the marketing program.

"Export mentality" is a fundamental requirement for export success within the business community.

Honduras Rating:      poor            fair            good            excellent

The lack of an export mentality -- often due to past import substitution policies -- is a key barrier to export success. In Honduras we found that some local businessmen who had excellent reputations in the furniture and agribusiness areas, and who expressed a strong interest in exporting, did not have the willingness to overcome difficulties that occurred in the export process. As a result, an inordinate amount of project time was wasted on companies that should have been screened out at an earlier stage.

A key objective of FIDE was the fostering of an export mentality. This was particularly effective in the apparel sector, where virtually the entire community of small producers were transformed into successful exporters (although many of them did not sign up for FIDE services). As a result, FIDE was the catalyst for substantial exports which have not been included in measuring the program's results.

The use of trade shows is of minimal value for export sales unless the product is ready for the show and the company can do the necessary follow-up.

Honduras Rating:      poor            fair            good            excellent

Attendance at trade shows is often accompanied by overly optimistic hopes about developing long term sales. Often, the company is unable to meet the production and quality requirements of buyers placing initial orders. This damages the reputation of both the sector and the country.

Attendance at trade shows on a "walk through" basis is effective in introducing local businessmen to U.S. business practices, designs, and quality requirements.

### 3. Contract Management

The payment mechanism for host country contracts should be efficient enough to ensure timely payment of funds to the trade promotion organization and its contractors.

Honduras Rating:      poor              fair              good              excellent

Payment delays and high administrative costs can be significant disincentives for small and medium size U.S. contractors. Although direct U.S.A.I.D. contracting usually functions smoothly, the Agency has not developed contract and payment mechanisms appropriate to host country trade development programs. In the case of Honduras, the division of responsibility between the Mission and FIDE often resulted in neither organization assuming responsibility for resolving contract or payment problems.

For FIDE contractors, invoices were sent to FIDE, but passed to U.S.A.I.D. for final approval and payment. This structure had two detrimental results. First, it put FIDE in the position of being responsible for directing the contractor's efforts but without authority for payment. In one case, FIDE directed payment of Honduran legal fees in the U.S. through IPAC's Intermediary Fund. After the fact, the Mission disallowed such payments, resulting in a delay of over one year in payment and no guarantee that payment will be made.

Second, this structure resulted in consistent payment delays. The average time for payment against invoices over the contract period was over six months. Small contractors found it impossible to work under such conditions. More importantly, it is in U.S.A.I.D.'s interest to remove such disincentives to encourage qualified firms to pursue government contracts.

#### C. General Conclusions

The FIDE program has been moderately successful despite a number of handicaps. Incremental exports directly attributed to FIDE have been over \$10 million during the three year period since the project started. In the case of the cigar program, the FIDE program was solely responsible for avoiding the collapse of a company employing 2,000 people in a region with no alternative

industry. Much more importantly, FIDE has served as a catalyst in encouraging sizeable apparel exports outside of its program, and in starting to build an export mentality in the country.

Although IPAC's support was largely limited to the export promotion component of the program, we have been sufficiently involved with the shift to an investment promotion strategy to begin to see some results. We are convinced that a long term integrated investment and export promotion program can be highly successful.

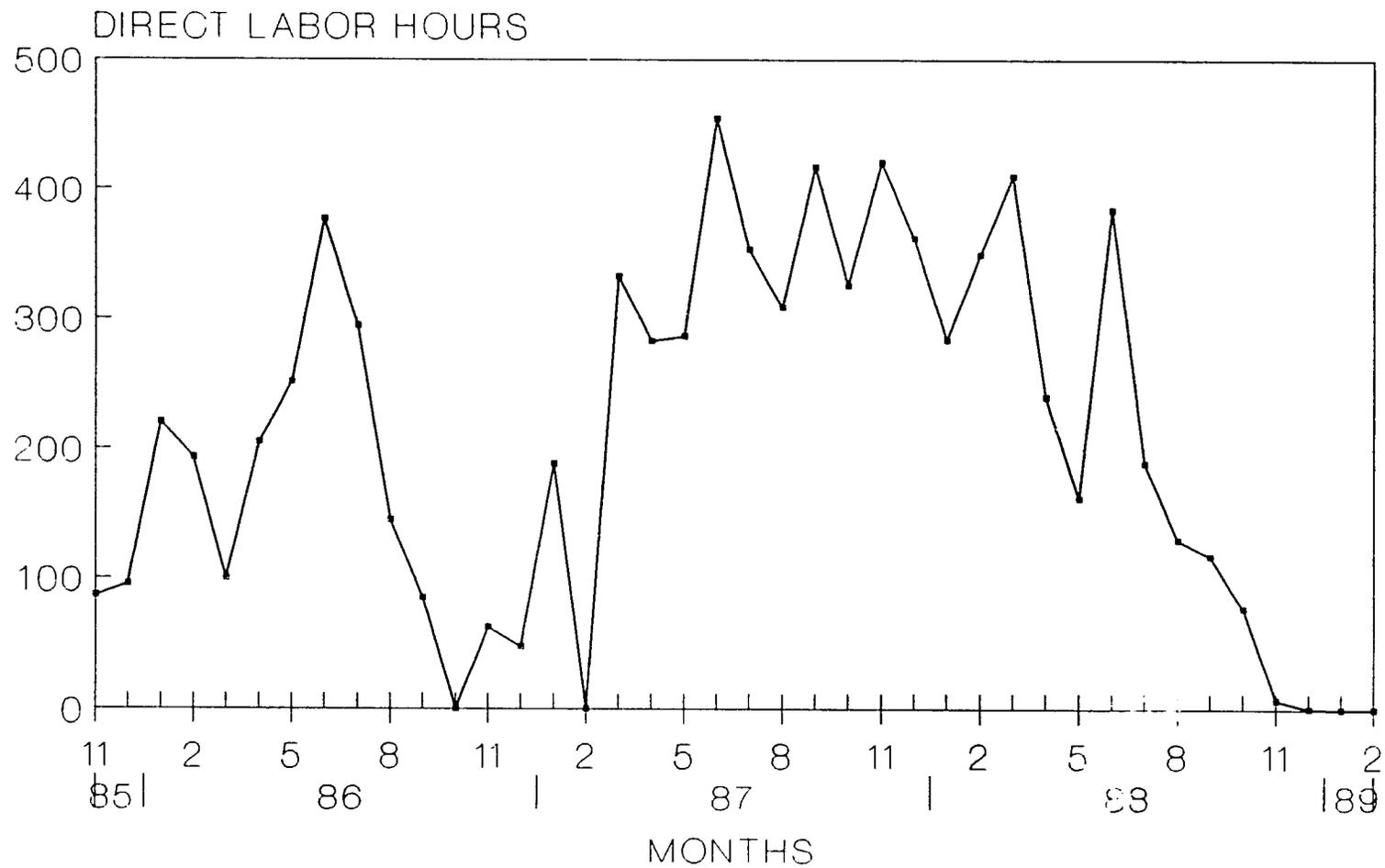
On the other hand, it is hard to overstate the obstacles facing small economies without a significant export-oriented business base and supporting private sector service industries. In Honduras' case the problem was severely compounded by perceived political and business risks in Central America. Thus, supporters of the program must recognize that progress will be slow and hard. IPAC believes that the staff of FIDE deserve full credit for their monumental efforts and for the successes they have generated so far.

#### D. Summary of Level of Effort

Exhibits 1 and 2 provide an indication of the level of effort of the IPAC program. Exhibit 1 shows IPAC labor hours expended per month from November 1985 through January 1989. Exhibit 2 shows the dollar value of IPAC's monthly invoice, including the amount of subcontractor charges.

# EXHIBIT 1

## IPAC Labor Hours: 11/85 - 1/89





## II. FIDE MANAGEMENT AND CONTRACTING STRUCTURE

### A. FIDE Objectives

FIDE was developed as a private foundation with the objectives of promoting both trade and investments, and operating on a partial cost-recovery basis. Among the tools available to FIDE, under U.S.A.I.D. project funding, were U.S. promotion programs, technical assistance, U.S. dollar and local currency financing, and the longer term development of export processing zones.

### B. Year One: 1985-86

In designing the consulting support which would become the "FIDE Network" in the U.S., FIDE and the Mission faced a challenge common to all trade development efforts -- to select contractors which have the appropriate mix of business promotion, institution building, and U.S.A.I.D. project management skills. Effective trade promotion requires an individual and corporate "marketing mentality" not found in many traditional U.S.A.I.D. contracting organizations.

FIDE developed a unique approach. Rather than selecting a single, large U.S. consulting/marketing firm, they hired several smaller firms, with relatively small, one-year contracts, at four locations in the U.S. Each of the U.S. contractors in the network reported directly to FIDE, and each competed with the others for success in trade promotion. The initial contractors and their responsibilities are shown in Exhibit 3.

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Exhibit 3

FIDE CONTRACTORS 1985-86

<u>Contractor</u> (Location)	<u>Responsibility</u>
IPAC, Inc. (Washington, D.C.)	National Representation: nationwide export development with sole responsibility in the Northeast
Chicago Assn of Commerce and Industry	Regional Representation: Midwest
InterAmerica's Group (Atlanta, GA)	Regional Representation: Southeast
International Resources Center (IRC) (Los Angeles, CA)	Regional Representation: West
Price Waterhouse (Washington, D.C.)	Investment Analysis and Promotion

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The target export sectors were furniture, wood products, apparel, and agribusiness. Each of the U.S. contractors involved in export development was given a target for the contract year to develop new exports equal to twenty times the value of its consulting contract. On average, this target was \$2.5 million.

The targets proved to be completely unrealistic for the start-up phase of the FIDE program. Fundamentally, one year is not enough time to generate substantial nontraditional exports and evaluate the results.<sup>1</sup>

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<sup>1</sup> Offset and countertrade companies, for example, develop exports from a developing country for around a five percent commission (the same 20 to 1 ratio as the FIDE targets. However, these companies typically require a five to ten year performance period.

A large "learning curve" had to be overcome:

- a) By the new FIDE staff, many of whom had no experience with the U.S. business community;
- b) By the U.S. contractors who had not worked with the Honduran private sector before;
- c) By the Honduran business community, for whom the FIDE concepts of export support and cost recovery were completely new; and
- d) By the Mission staff who were trying to ensure coordination between FIDE and several other elements of the overall project.

This challenge required a great deal of communication among too many diverse elements. FIDE, the focal point of the hundreds of leads being generated by the U.S. network, worked exceptionally hard to respond to the leads, develop its internal management systems, manage the high volume of contract paperwork, and recruit Honduran firms which had export potential and would agree to pay FIDE a management fee of three percent of the value of additional exports,.

Major IPAC activities during the year included:

- o Conducting an initial survey of export potential for the furniture, apparel, and agribusiness sectors;
- o Developing introductions between Honduran furniture manufacturers and the U.S. industry;
- o Creating and managing a Honduras display at the Dallas International Furniture Show, which showed furniture from six companies and generated \$15,000 in immediate sales; and
- o Conducting market research for several agribusiness products.

Program results will be addressed primarily in Section III, Case Studies. In general, the results of the first year were:

- o Approximately \$200,000 of new exports generated by the "network";
- o Over \$5 million in exports developed through FIDE's financial assistance programs to companies which did not need marketing support;
- o Several projects underway with future export potential; and
- o Establishment of FIDE's credibility among important sections of the Honduran business community.

From IPAC's perspective, the lessons learned from the initial year were:

- o A large number of leads were quickly generated, allowing a fast start to the program and some early success stories.
- o Quick responsiveness to U.S. requests for information, bids, or samples was shown by FIDE. Despite periodic lapses, the FIDE network worked hard to establish a responsive and aggressive program.
- o The overall U.S.A.I.D. project suffered from an inadequate understanding of the near-term production constraints and U.S. market potential of the Honduran private sector.
- o Contrary to initial expectations, very few current Honduran products could break into the U.S. market. Product development and production assistance, in addition to U.S. marketing, was almost always required.
- o Wasted money and effort resulted from contracting with a group of independent and competing U.S. firms. Unqualified leads and inappropriate program recommendations were frequently received by FIDE. Duplication of effort occurred, particularly in the furniture sector.
- o There was a wide variance in the marketing effort and output among the U.S. firms. However, the program was

designed to allow FIDE to review the results of the initial year and make appropriate changes.

- o Periodic travel to Honduras by the staff of the U.S. consulting firms was required to establish a close working relationship with FIDE staff and the Honduran companies which were FIDE clients. This requirement was not foreseen in the initial FIDE planning, and it was simply not possible for FIDE to host all the contractors.
- o Contract management was a serious problem, with a single FIDE staff member receiving up to seven U.S. invoices per month and working with a cumbersome U.S.A.I.D. process to ensure payment. Payment delays of over six months presented serious financial problems to the small firms under contract.
- o Most investment leads were generated as a result of the export marketing efforts, not through an independent contractor tasked with investment promotion.
- o The initial expectation that a U.S. contractor with a budget of approximately \$100,000 could generate \$2,000,000 in new exports in the first year of the program was unrealistic. This showed a lack of understanding within U.S.A.I.D. and FIDE of the investment costs normally required to develop new markets.

### C. Year Two - 1987

The Honduran government declared 1987 as "The Year of Exports", and made important regulatory changes to foster exports and export-related investments.

Based largely on the lessons learned during the start-up year, FIDE made a decision to fundamentally restructure the U.S. promotion network for 1987. FIDE selected IPAC as the prime contractor and manager of the entire U.S. promotion effort. As shown in Exhibit 4, two of the original firms were retained as subcontractors, and the International Executive Service Corps (IESC) was included in the program on a trial basis.

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Exhibit 4  
FIDE NETWORK 1987

<u>Contractor</u>	<u>Responsibility</u>
IPAC	Overall U.S. program responsibility
<u>IPAC Subcontractors</u>	
Chicago Assn of Commerce & Industry (Carib Business Promotion Center)	Representing FIDE with national associations and at selected trade shows.
IRC (became IBSEN)	California promotion
IESC	Pilot program to use IESC volunteer network to: <ul style="list-style-type: none"><li>o support U.S. promotion efforts with seminars in selected U.S. cities</li><li>o use product specialists for direct marketing.</li></ul>
Intermediaries	As required

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Export and investment promotion continued to be dual objectives of the program, with the majority of the effort directed toward export development. Export targets for the year were developed through a bottom-up analysis of the export capacity of each FIDE client, potential programs, and likelihood of success. For each client, minimum and maximum targets were established, with the minimum target based upon a reasonable assumption of success and the maximum target based upon the best case scenario for the company. Exhibit 5 shows the targets developed, as well as an estimation of the actual results.

Exhibit 5

EXPORT TARGETS FOR THE PERIOD APRIL 1987 - APRIL 1988

<u>FIDE Client</u>	<u>Min Target</u> (000)	<u>Max Target</u> (000)	<u>Actual Result</u> (estimated 000)
<u>Wood Products</u>			
Del Bosque*	75	100	--
Prodema	150	500	dropped from program
<u>Furniture</u>			
Derimasa*	500	1,080	500
Madetex*	40	150	--
Caoba*	--	--	50
<u>Apparel</u>			
Bolivar	50	300	--
Intermoda	150	325	--
Blondy*	50	200	--
Zodiack	--	50	--
Fayad*	--	--	50
<u>Agribusiness</u>			
FIAH* (snow peas)	--	50	trial order
Other	--	950	
<u>Other</u>			
Caprisa (shoes)*	75	645	--
Guantessa (sport goods)	--	100	--
Tabacos de Oriente* (cigars)	600	980	200
TOTAL TARGETS	1,620	6,130	800

(\* - discussed in case studies, Section III)

In addition to streamlining program management, FIDE instituted three major changes in program focus:

1) FIDE staff training in the U.S

FIDE assigned a staff member on a full time basis in the IPAC office from June 1987 through June 1988. In addition to on-the-job training provided by IPAC, she conducted program oversight and liaison between FIDE Honduras and the U.S. network.

2) Sectoral promotion versus regional promotion

FIDE and IPAC designated sectoral specialists to concentrate on the following sectors: furniture/wood, agribusiness, apparel/shoes, and cigars. Decisions on the use of subcontractors and intermediaries were made on a sector-by-sector basis. In addition, promotion efforts were concentrated on the ten to twenty Honduran companies which FIDE selected as priority companies.

3) Intermediary Fund

FIDE established an innovative "intermediary fund" within IPAC's contract for use with trading and marketing intermediaries. The purpose of this fund was to provide appropriate financial incentives to intermediaries who: 1) could be instrumental in export promotion, and 2) would not normally choose to develop Honduran exports. Use of the fund would be determined on a case-by-case basis, with uses to include monthly retainers, commissions, invitational travel, short term technical assistance, design and packaging, and legal assistance.

The 1987 program involved aggressive marketing and innovative program development in all sectors. The major activities for the year are summarized below:

- o Extensive export counseling and U.S. market development support to several Honduran furniture manufacturers.
- o Attendance at the spring and fall Southern Furniture Mart, High Point, N.C., where IPAC assisted FIDE and Honduran companies establish contracts with U.S. manufacturers and importers.

- o Development of a completely new and innovative cigar marketing program which assisted the transition of Tabacas de Oriente from primarily a leaf producer to an established exporter.
- o Development of an innovative shoe export program through the creation of a cooperative of small companies and assistance by IPAC and the IESC at the New York Shoe Show.

As shown in Exhibit 5, additional exports were developed, but several important programs (notably mahogany furniture, shoes, snow peas and cigars) took longer to develop than expected and showed little or no actual export results in 1987. Most of these programs showed success in 1988 and 1989. The primary result of the program was that available export capacity was either quickly used up or reclassified as requiring additional product or program development assistance. This was especially true in apparel where, due to the absence of quotas, competent Honduran manufacturers had little trouble getting U.S. 807-type sourcing contracts without FIDE assistance. On the other hand, some furniture manufacturers which appeared to have substantial capacity proved unable to meet U.S. buying requirements.

IPAC and FIDE developed a comprehensive project tracking system which was updated by IPAC and the subcontractors on a monthly basis. This system was an essential element of the export and investment promotion program, as there were over 100 programs in varying stages of development at most times. Exhibit 6 shows the number of companies by sector contacted by each contractor during an average month in 1987. More detailed information on the contact program is shown in Appendix 1. This appendix contains excerpts from IPAC's July 1987 monthly report to FIDE, including the summary of each contractor's activities and the status sheet of all contacts.

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**Exhibit 6**

**AVERAGE NUMBER OF COMPANIES CONTACTED PER MONTH DURING 1987**

<u>Sector</u>	<u>IPAC</u>	<u>CACI</u>	<u>IBSEN</u>	<u>IESC</u>
Apparel/Shoes	11	12	12	4
Agroindustry	3	5	-	-
Furniture	29	3	6	1
Wood Products	13	6	-	4
Other Products	7	5	1	12
TOTAL	63	31	19	21

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The lessons learned from the second year of the program are summarized below:

- o The placement of a FIDE staff member in the IPAC office resulted in a dramatic improvement in communication, program management, and coordination of efforts.
- o Development of a new export product or program takes between 1 1/2 and 3 years.
- o More contractor time was required to ensure success of programs under development than to find new buyers or leads.
- o The export mentality of local businessmen is a key factor in export success, one which is frequently overlooked, and one which was lacking in many local businesses targeted for export assistance.
- o Short term intermediaries, such as traders and brokers, can be highly effective in developing programs and sales. The intermediary fund proved to be an essential element of the promotion program because it allowed IPAC to focus short term technical assistance or other incentive programs to meet a specific export need.

- o Export success provides strong incentives for new investment by local business groups.
- o Most U.S. companies considering Honduran investments in the wood or apparel sectors preferred to begin with a sourcing program.
- o Technical assistance needs to be better coordinated with U.S. promotion efforts. In most cases, technical assistance was provided to local companies with no regard for the types of products or programs being developed through the promotion efforts.

At the end of 1987, U.S.A.I.D. conducted its first evaluation of FIDE. The lack of available export capacity was identified as a key constraint. The evaluation concluded that, in terms of dollar value, the export development efforts of FIDE had not been worth the effort. The resulting recommendation was that FIDE shift immediately to an intensive investment promotion program through the establishment of FIDE promotion offices in the U.S. (This recommendation was based upon the successful model used by CINDE in Costa Rica.)

In IPAC's view, the evaluation presented a fairly superficial view of the export marketing challenges faced and overcome by FIDE over its first three years of operation, and took little account of the commitment to economic growth underlying the project. Consequently, it provided relatively little guidance for future private sector planning. Although the company conducting the evaluation does not need to be a specialist in export development, the evaluation criteria should include an in-depth analysis of the program's successes and failures and its contribution to economic growth.

At no time did the evaluation team interview anyone from IPAC or its U.S. subcontractor network (CACI, IESC, intermediaries) regarding the FIDE program. Thus, the evaluators

had little knowledge of the marketing approaches which had been tried for various products, the training program which was undertaken for FIDE staff, and what new programs could be undertaken to build on FIDE's experience to date. These are key points which are covered in this report.

As a result of this evaluation, U.S.A.I.D. and FIDE instituted a major change in direction for the third (1988) and succeeding years of the program.

#### D. Year Three: 1988

In the fall of 1987, the Mission decided to shift FIDE's focus from export promotion to investment promotion. Thus 1988 was established as a transition year in which IPAC would gradually terminate its U.S. marketing support, and FIDE would develop its own capability in New York and Atlanta. IPAC continued limited export development support for FIDE clients, but a large portion of IPAC's efforts were devoted to investment promotion training for FIDE staff and support of the transition effort. The contracts for IPAC's major subcontractors (IESC, CACI, IRC) were not renewed in early 1988, though selective use of subcontractors through the intermediary fund was continued.

Because the program was in a transition away from export promotion, the extensive project tracking system developed in 1987 was discontinued. In its place a bi-weekly labor status report was provided by IPAC to FIDE. This allowed FIDE to monitor the efforts of each IPAC staff member on an on-going basis. Exhibit 7 shows the bi-weekly report from June 2, 1988.

In IPAC's view, the rapid change of direction for FIDE was too abrupt, sent the wrong signals to the Honduran private sector, and discontinued a promising set of export initiatives which were underway.

# EXHIBIT 7

## IPAC Bi-Weekly Report

TO: Norman Garcia, FIDE  
Marco Matute, FIDE SPS  
FROM: Richard Koskella *rk*  
DATE: June 2, 1988  
SUBJECT: IPAC Bi-weekly report 88-9

### 1. Labor Status

#### A. Labor hours used May 15-31:

<u>Name</u>	<u>Hours</u>	<u>Projects</u>
Koskella	47	Preparation for and presentation of IPAC seminars on Investment Promotion, and selected industry sectors (furniture, electronics, apparel and pharmaceuticals) in Tegucigalpa, May 25-26; cigar marketing; and project mgmt.
Graubart	60	Preparation for and presentation of IPAC seminars on Investment Promotion, and selected industry sectors (furniture, electronics, apparel and pharmaceuticals) in Tegucigalpa
Wood	0	
Batwin	52	Preparation for and presentation of the IPAC seminar on agribusiness, May 31 - June 2.
Wilson	63.5	Research and preparation of IPAC seminars on furniture, apparel, pharmaceuticals, and agribusiness.
de Vega	60.5	Change industry concentration survey to reflect New York office with NE and Midwest responsibility. Research and preparation of IPAC seminars on Investment Promotion and electronics. Low level of effort on Bobbin Show preparations.

#### B. Labor Hours Projected for June 1-15:

Most of the labor hours during this period will be dedicated to Wayne Batwin's agribusiness seminar to be given in Honduras during the first days of June. Administrative details for the Bobbin Show will be handled. IPAC is awaiting FIDE guidance on a program for further industry seminars to be given in Honduras.

## EXHIBIT 7 (Cont.)

<u>Name</u>	<u>Hours</u>	<u>Projects</u>
Koskella	18	Cigar Program, meeting with Ramon in Washington, D.C., project management.
Graubart	4	Follow up from Honduras trip, Honduras brochure.
de Vega	30	Bobbin Show administrative details, maintain contacts with Badensport and H.H. Brown, Honduras brochure. Carry out research on toothbrushes. Begin contacting interested importers to send samples of Honduran shiitake mushrooms.
Batwin	30	Agribusiness seminars in Honduras. Follow-up to Seminars.

### 2. Status of Export Projects

- A. Furniture: No action.
- B. Mahogany: Waiting for response from Juan Bendeck on carved doors.
- C. Cigars: Martin Brothers' strategy is to use smoke shops on the West Coast and retail chains in the East. Market contacts underway.
- D. Shoe Program: Samples of hand sewn men's boat shoes sent to H.H. Brown. Awaiting samples for Endicott-Johnson.
- E. FIAH: Action as determined during Batwin trip.
- F. Blondy: MPB lawyers are concerned that due to family problems, Henry may not be available for deposition and trial in Chicago. If they ask for a postponement it could be months. Please discuss with Henry and advise.
- G. All Spice: Elizabeth de Vega will begin collecting information on price and availability.

### 3. Other IPAC Tasks

- A. Industry Seminars: Industry seminars in the areas of electronics assembly, toys, and general assembly in planning stages. IPAC will re-contact interested parties.

Highlights of IPAC efforts for the year included:

- o Limited export development and marketing support for agribusiness products, shoes, cigars, and furniture.
- o Market research on potential new products from Honduras, as directed by FIDE.
- o Design and purchase of a portable FIDE booth for trade show exhibitions in the U.S.
- o Design, photography, production, and printing of a four-color, 28-page Honduras Investment Guide, which is included as the attachment to this report.
- o Support for FIDE attendance at trade shows, including the Bobbin Show (apparel) and the U.S. Southern Furniture Mart.
- o Analysis of the U.S. regional industry concentration for apparel, wood products, light industry, and pharmaceuticals. This research assisted FIDE in determining the locations and major focuses for their U.S. offices, and provided an initial contact data base of 7,000 firms in the targeted industries.

- o Preparation and presentation of an agribusiness seminar, presented to Honduran businessmen in La Ceiba, San Pedro Sula, and Tegucigalpa. The outline of the presentation is shown below in Exhibit 8.

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**Exhibit 8**

**IPAC AGRIBUSINESS SEMINAR OUTLINE  
U.S. MARKET OPPORTUNITIES FOR HONDURAN AGRIBUSINESS**

1. The U.S. Market
  2. U.S. Food Imports
  3. Distribution Channels
  4. Entering the U.S. Market: What Factors are Important
  5. U.S. Regulatory Issues
  6. Opportunities for Existing and New Products from Honduras
  7. FIDE/IPAC Services and Coordination
  8. Conclusions and Followup Activities
-

- o Preparation and presentation of a three day investment promotion seminar with the agenda as shown in Exhibit 9.

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**Exhibit 9**

**IPAC INVESTMENT PROMOTION SEMINAR AGENDA**

<u>Section</u>	<u>Topic</u>
Part I	U.S. Foreign Investment - Basic Considerations
I.1	Overview - International Investment by U.S. Firms
I.2	Why Firms Invest Offshore
I.3	The Firm Decision Process
I.4	Forms of International Investment
I.5	Financing
I.6	Communications
Part II	Presentation of Industry Analysis
II.1	Wood/Furniture
II.2	Apparel
II.3	Electronics
II.4	Pharmaceuticals
Part III	U.S. Industry Concentration Analysis
III.1	Northeast
III.2	Midwest
III.3	Southeast
III.4	California

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Some of the more important lessons learned from year three of the program included:

- o Changes to program structure (i.e. shift from export to investment promotion) should take full account of export initiatives underway and commitments made to the local private sector.
- o Extensive investment promotion efforts were planned and undertaken before the development of export processing zones capable of absorbing U.S. investments.
- o Establishing a new product in the U.S. retail market, such as cigars, can be both a time consuming and costly endeavor.
- o Political instability, such as the demonstrations and burning of the embassy motor pool in April 1988, have a direct negative impact on both exports and investments. As discussed in Chapter 3, a major cigar purchase was cancelled immediately following the demonstrations; through insistent marketing efforts, the program was restarted one year later.
- o Counselling and guidance for local firms on U.S. legal issues and potential problems should be an integral part of export development programs. Several firms suffered losses due to U.S. bankruptcy or fraud, which could have been avoided or minimized with proper counselling and monitoring.

### III. CASE STUDIES IN EXPORT DEVELOPMENT

While the preceding review of the program structure is important from a management perspective, the "flavor" of an export development program can be best sampled through case studies. The FIDE program provides a rich history in export development programs. In our experience, failures and successes are equally instructive as guides to future private sector program development, and are discussed in the following sections. Section A lists all products for which IPAC conducted market research. The level of effort for the products varied from a few hours to an extensive written report. Section B lists all products for which IPAC and its subsidiaries conducted active marketing. The remaining sections are case studies.

#### A. Market Research Conducted under FIDE Program

mahogany furniture	wooden doors
pine molding	broom handles
furniture components	dowels
clock boxes	toys (wooden/stuffed)
apparel items	lingerie
shoes	toothbrushes
loofa (sponges)	palm oil
baby corn	snow peas (pickled)
hot peppers	cashew nuts
cashew butter	cashew fruit (dried)
pineapple	sesame seeds
banana/plantain chips	fresh water fish
fruit juices	pork and beef
pens	stoneware dishes
cigars	marble and stoneware caskets
handicrafts	wooden matches

#### B. Products Actively Marketed under FIDE Program

mahogany bedroom suite	chairs/chair parts
clock boxes	wooden doors
pine molding	wooden snow fencing
furniture accessories	rattan furniture
pine bunk beds	furniture parts
shoes	apparel items
snow peas (pickled)	sesame seeds
cigars	plantains/banana chips

### C. Mahogany Furniture - Success

The country's largest furniture manufacturer, Derimasa, received extensive FIDE assistance in technical and marketing assistance. In 1985 the company was a successful exporter of low-end pine products such as clock cases and chair parts. However, IPAC and Derimasa agreed that export growth and profits would be more likely in higher valued-added products, notably mahogany furniture. Due to rising labor costs and scarcity of mahogany, U.S. manufacturers had stopped making solid mahogany furniture. Thus, a market niche existed for a reasonably-priced solid mahogany bedroom suite.

Using funds from the Intermediary Fund, IPAC hired a designer from High Point, NC, to design a mahogany bedroom suite which would compete at the upper mid-point of the U.S. market (approximately \$1,800 retail for a four piece suite). The timing of the project is shown below.

- o March 1986: Design work completed for poster bed, 6-drawer chest, 8-drawer chest, night stand, and mirror.
- o April 1986: Derimasa began procurement of mahogany wood, production of prototypes, and development of quality control and finishing capabilities.
- o Oct 1986: Planned showing of initial samples at Southern Furniture Mart, High Point.
- o 1986-87: Technical assistance provided by FIDE in production and finishing techniques peculiar to mahogany. It was determined that Derimasa did not have the capability to apply the high quality finish required for the U.S. market. IPAC conducted pre-marketing of the product with U.S. manufacturers and importers.
- o Oct 1987: Actual showing of initial samples at Southern Furniture Mart. (Samples were produced in Honduras, but finished by a company in High Point.) A trading company decided to carry the line in future shows and work with Derimasa to improve the quality.

- o Oct 87-Mar 88: Modification to the bedroom suite, as directed by Decurtis Trading Company. New samples made.
- o April 1988: Showing of new suite at Southern Furniture Mart, Spring show. Decurtis Trading Company placed initial order for 50 bedroom suites. Purchases in 1988 totalled \$200,000.
- o 1988: Decurtis Trading Company directed the production of two different bedroom suites, one at a higher price point (\$3,600 retail for four piece group), and one at a slightly lower price. Sales for these items are planned for 1989, with exports from Derimasa projected at \$500,000.

#### Lessons Learned:

- o The initial plan to have samples ready to exhibit within six months of start was too optimistic. The actual time required was 18 months.
- o Despite the best efforts of Derimasa, they did not have the technical capability to finish the furniture to U.S. quality standards. A substantial investment to develop a modern finishing section of the factory would be required.
- o Because of the uncertainty of production and quality control, sales could not be made directly to retail stores. Instead, a trading intermediary was found which was willing to invest substantial time and money to oversee the production and maintain the required inventory in the U.S.
- o The commitment and attention to detail of the company's general manager was a key factor in the program's success.

#### D. Mahogany Furniture - Success

Caoba was a small company started in late 1987 with an initial investment of approximately \$100,000. The owner was extremely aggressive and impressed U.S. buyers with his responsiveness and quality control. On one occasion, for example, a U.S. company provided a sample magazine rack, and Caoba had a countersample finished the next afternoon. As a

result, approximately \$50,000 in exports were generated during the company's first year.

However, FIDE was unsuccessful in signing Caoba as an official client, and thus was not able to collect the 3 percent commission due on exports generated through the FIDE marketing network.

#### E. Mahogany Furniture - Failure

The small Honduran manufacturer, Madetex, was one of the few companies at the start of the FIDE program which had exported high quality mahogany furniture. During the early 1980s, Madetex sold four-poster mahogany beds by mail order through Speigel Catalog. However, by 1986 Speigel terminated the program, and Madetex requested marketing assistance from FIDE. Due to the small production volume of Madetex, IPAC recommended a strategy of sourcing parts and finished pieces for U.S. manufacturers.

Through attendance at the High Point and Dallas furniture shows, IPAC presented Madetex's capability and quality to numerous manufacturers and importers. Hickory Furniture, one of the largest U.S. manufacturers of medium priced mahogany four-poster beds, had an urgent requirement for hand carved bedposts. In late 1986, Hickory placed an initial order for 100 posts, with a requirement for as many as 300 per month (approximate FOB price per post was \$35.00). For a variety of technical and managerial reasons, Madetex was unable to make a single shipment during all of 1987. Finally, in early 1988, Hickory placed its order with other U.S. suppliers and companies elsewhere in the Caribbean.

The failure of the company to take advantage of this opportunity was primarily due a lack of commitment on the part of the company's owner. Had this lack of an "export mentality" been identified earlier by FIDE and used as a screening criterion,

significant marketing and management time and money could have been saved.

#### **F. Wooden Doors - Failure**

Del Bosque was a small manufacturer of wood moldings and panelled doors (pine and mahogany). The company had earlier exported to the U.S., but have gone through bankruptcy and a reorganization before requesting assistance from FIDE in 1986. The marketing strategy developed by IPAC was to promote the company's products to U.S. importers and end-users of the products.

A large wood products trading company based in New York was attracted by the proposed quality and price of the pine panelled doors. The company ordered one door to use as a sample in its show room, in order to generate interest on the part of their salesmen and customers. However, after sitting in the company's space for ten days, every panel on the door showed large cracks, which were due to improper drying of the wood. The company refused to do any business with Honduran suppliers after that experience.

#### **G. Pine Furniture - Success**

Derimasa was also a successful exporter of pine furniture under the FIDE program. Derimasa was introduced to a large Chicago-based importer, Butler Furniture, by the Chicago Chamber of Commerce and Industry. Over a three year period, Derimasa produced and exported several small items, such as a valet stand and wall rack. However, Derimasa found that the profit margin in low-end pine furniture was very small and chose to move into higher value-added mahogany products.

As part of the furniture marketing program, IPAC introduced Derimasa to Woodstuff Manufacturing (the largest waterbed manufacturer in the U.S.), and provided a sample night stand which was well received. Staff from Woodstuff visited Honduras in 1987 to arrange a sourcing program for a complete waterbed suite. The suite was to be assembled in Honduras and finished at the company's factory in Phoenix. Initial prototypes were produced for Woodstuff; however, they resulted in only limited sales.

#### H. Cigars - Success

In 1986, IPAC was asked to survey the cigar market in order to provide marketing advice and assistance to Tabacos de Oriente. The company, located in Danli near the Nicaraguan border, employed 2,000 people and was near bankruptcy due to an abrupt decline in sales of tobacco leaf. In order to stay in business, the company had to shift quickly from leaf sales to cigar manufacturing and sales. IPAC reported that the cigar market was declining at an annual rate of about ten percent, and that there was very little room for new entrants. The market for premium cigars, in particular, was saturated by products primarily from the Dominican Republic, but also from Haiti, Costa Rica, Mexico, Panama, and the Canary Islands.

Despite this bleak market assessment, FIDE directed its U.S. network to prepare an aggressive marketing program for this high priority client. (FIDE had provided technical assistance loans to Tabacos de Oriente which would be lost in a bankruptcy.) Sporadic marketing efforts were made during 1986, with limited success. Using funds from IPAC's Intermediary Fund in 1987, IPAC directed an aggressive program with three separate components: wholesale distribution to smokeshops; private label program with Walgreens Drug Stores; and a retail program for an innovative new cigar brand.

## 1. Wholesale Distribution to Smoke Shops

The penetration of a declining market with a new product is the ultimate marketing challenge. Private companies, or trade promotion organizations, facing this challenge must be prepared for both substantial initial investments and a relatively long (2-5 years) payback period. The strategy developed for this program was for IPAC to assist in the establishment of a marketing company dedicated to the introduction and promotion of Tabacos de Oriente's Plasencia brand.

The subsidy payments from the Intermediary Fund eventually amounted to over \$80,000, far higher than originally anticipated. These fees were charged directly to FIDE's account with Tabacos de Oriente, with the intention of being repaid out of a 3 percent commission on future sales.

The chronology of events is summarized below.

- o March 1987: IPAC recruited the personnel and directed the establishment of a cigar marketing company based in Tampa, Florida. The business plan for the company was for an initial subsidy by FIDE, which would gradually be replaced by commissions on sales. For the three salesmen, IPAC guaranteed a base salary and travel expenses for the initial three months of the marketing program.
- o June 1987: After three months, the company had made over 200 sales calls, and made sales of \$30,000 to smoke shops in the southern U.S. As the company was not yet self-sufficient, FIDE agreed to continue the company's subsidy through October 1987.
- o October 1987: Monthly sales continued to grow. FIDE and the sales company agreed to restructure the program, with a small subsidy continuing for an additional three months and only one salesman continuing the program.
- o February 1988: The promotion program became self sufficient with the establishment of the Indian Head Sales Company as the exclusive U.S. distribution agent for Tabacos de Oriente.

- o 1988-89: Cigar sales averaged \$20,000 per month.

## 2. Private Label Program with Walgreens Drug Stores

Through personal contacts, the cigar marketing company convinced Walgreens Drug Stores to introduce a private label imported cigar into its over 400 retail stores. About one year of effort was required to work with the Walgreens buyer to settle such issues as the development of a label, pricing, distribution, and financing. The following events then took place:

- o April 1988: Walgreens buyer accepted the program and convinced senior management to approve the initial order for 500,000 cigars (250,000 for placement in stores, 250,000 for restocking).
- o April 10, 1988: Hondurans demonstrating over the "illegal" seizure and deportation of a Honduran drug dealer ransacked the U.S.A.I.D. building and burned the motor pool.
- o April 12, 1988: Walgreens president cancelled the program, on the grounds that, regardless of the viability of the program, the company would take no risk of a consumer backlash by having a product from Honduras.
- o April 12-20, 1988: Calls were placed to Walgreens by senior U.S.A.I.D. officials, IPAC staff, and the Chicago Chamber of Commerce. The company's position was unchangeable, and the cigar order was given to a company in Miami sourcing from the Dominican Republic.
- o April - December 1988: The marketing company continued to call on the Walgreens buyer periodically.
- o April 1989: One year after the demonstration in Honduras, the Walgreens buyer agreed to try the Honduran program in half of the stores. The initial order was placed for 250,000 cigars, with an approximate FOB value of \$125,000. If successful, up to 500,000 cigars would be ordered per quarter.

### 3. Retail Program for Innovative Cigar Brand

Working with a New York trading company which specializes in cigar imports, IPAC proposed a completely new market strategy for Tabacos de Oriente. Using the absolute minimum production cost, it was determined that a handmade cigar could be sold at retail for \$0.35 per cigar. This would be competitive with most U.S. machine made cigars sold in the mass market, and far below the \$1.00 and up cost of most imported cigars. The New York company agreed to be the exclusive importer of the product, once it was ready for introduction.

Using the Intermediary Fund, IPAC hired a designer to develop the marketing concept and packaging. To penetrate this highly competitive market without a supporting advertising budget, a packaging concept was needed which would, essentially, market itself. Once a customer tried Caribe, it was felt that the product's quality and low price would ensure sales growth. The result, shown in Exhibit 10, was the development of the Caribe brand, with the shark as the logo. Front marks, or brand names, for the three sizes were called "Tiger Shark", "Great White", and "Mako". The design proved acceptable to a number of buyers, and won a national award for the design concept.

The program events are summarized below.

- o June 1987: Concept discussed with Tabacos de Oriente.
- o July 1987: New York trading company agreed to be exclusive importer and assist in product development. Designer was hired.
- o August - December 1987: Design and packaging developed.
- o April 1988: Initial press run of 30,000 cigar packs for trial orders.

- o July - December 1988: Marketing efforts underway by importer. Calls made on retail chains resulted in some interest, but requests for additional point-of-purchase display design and willingness to contribute to advertising.
- o January - April 1989: 30,000 packs were sold to smoke shops in the southern U.S., but there had been no success with the primary target, U.S. retail chains. Marketing to retail chains is continuing.

# EXHIBIT 10

## Caribe Cigar Box

**CARIBE**

In 1860, the Plasencia family set sail from the Canary Islands to seek its fortune in the tobacco fields of Cuba. And with a generation of experience behind them, they soon became that country's third largest tobacco producer and maker of hand-rolled cigars.

In 1963, as Fidel Castro's soldiers trailed hot on their heels, the Plasencias escaped to Nicaragua, where they hoped to resume their lives in tranquility. But after only 14 years, Nicaragua's Sandinista aggressors forced the Plasencias to flee into neighboring Honduras.

Today, more than a century of pioneer spirit and dedication have produced Caribe, the only **Handmade, Pure-Tobacco, Imported Cigar** in its class. Caribe is a timeless blend of select plantation-grown tobacco leaf and the gentle touch of an artisan's hands. Truly, it is the ultimate in smoking satisfaction.

The Plasencia family proudly offers you the benchmark of an honored family tradition. Caribe!

**CARIBE**

**CARIBE**

IMPORTED

MADE BY TOBACOS DE CALIENTE, HONDURAS.  
IMPORTED BY MAHON BROTHERS INTL. INC. NY 10035

0 54868 00001

**MAKO**

HANDMADE IN HONDURAS

100% TOBACCO  
5 EXCELLENT CIGARS

HANDMADE IMPORTED 100% TOBACCO

## I. Pickled Snow Peas - Failure

FIAH was small producer of canned sauces for the local market and a major exporter of hot peppers. The owner was a strong entrepreneur interested in new products. During a market planning session in mid-1987, IPAC identified one of his experimental products, pickled snow peas, as an excellent candidate for the gourmet market. Because the firm had limited production capabilities, IPAC developed a promotion plan which could allow gradual growth in production. IPAC developed a gourmet label (Exhibit 11) which could later be expanded to a full line of Fransen products, suggested an appropriate bottle and lid for the upscale market, and worked with the owner on quality and packaging issues, and FDA approval. Through initial presentations to buyers, IPAC verified that this product had substantial market potential, and developed initial orders under the Fransen label.

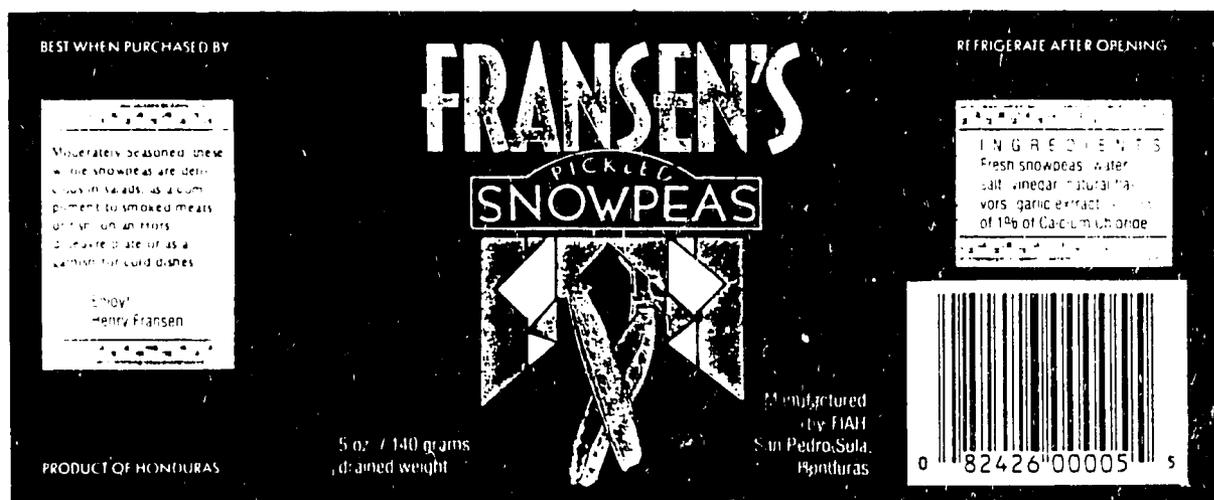
Initial trial shipments had severe quality and technical problems, which prevented IPAC from exhibiting the item at the Fancy Food Show in San Francisco in March, 1988. IPAC continued to assist on resolving the technical issues, including discussions with FDA staff and the use of technical efforts from Project SUSTAIN.

The owner, however, in part to avoid paying the 3 percent commission for FIDE export assistance, also entered into negotiations with a California producer of bottled gourmet products. This company introduced the Honduran product under its label at the New York Fancy Food Show in July, 1988, where the product was cited as the most innovative product within its category. However, the Honduran company proved unable to meet the growing demand, and continued to experience quality problems. As a result, the California subsequently developed another source of the pickled snow peas, and continued to increase sales.

The unfortunate result was that FIAH was shut out of the market by introducing an innovative product into the U.S. marketplace without protecting his product label and formulation. Had FIAH established pickled snow peas in the market under the Fransen label, future sales would almost certainly grown. In addition, greater sales potential could have been realized through the introduction of a full range of FIAH gourmet products.

# EXHIBIT 11

## Fransen's Snow Pea Label



## **J. Shoes**

Sectoral research identified the shoe industry as having substantial export potential, despite no prior export experience. Promotion assistance was provided to Caprisa, the country's largest shoe company, though Caprisa was not able to meet U.S. cost levels for handmade leather shoes and boots. Through the efforts of FIDE staff, a cooperative of small producers was created for export programs.

The IESC identified a volunteer who was from the U.S. shoe industry and who also had experience in Honduras. This individual hosted FIDE and the Honduran producers at the New York Shoe Show in the fall of 1987, and the result was expressions of interest, including trial orders, from large U.S. companies such as Bass, Kinney, and H.H. Brown. The IESC expert was also brought to Honduras for short term technical assistance for the trial order production. Although the IESC was not able to continue with the shoe program, due to FIDE's shift to investment promotion in 1988, the shoe program continued toward export success. FIDE's shoe specialist was invited to spend 2 days in the Kinney plant in the U.S., and also visited the H.H. Brown factory in Korea. Both firms appeared intent on producing in Honduras in early 1989, and were continuing with trial production and the supply of essential equipment to Honduran manufacturers.

## **K. Apparel - Success**

In 1985, the Honduras apparel sector included numerous small domestic producers and two or three larger companies engaged in exports. FIDE's goal was to develop a broadly based export sector. Over the three years, FIDE and IPAC spent a high level of effort on apparel promotion. The team visited each company several times each year, and in 1987 developed an export program tailored to each company. Through the many U.S. contacts

established by the U.S. contractors, FIDE's attendance at the annual Bobbin Show, and the open quota situation, the demand for Honduras production grew rapidly.

By late 1988, most Honduran producers were in export programs. Due to high level of demand from the U.S., however, these export contracts were usually developed without FIDE assistance. Under these circumstances, FIDE simply did not add enough value to justify, from the Honduran company perspective, the payment of a 3 percent commission on future exports. Although most of the apparel exports do not show up on the FIDE "balance sheet", FIDE's efforts were directly responsible for the development of a strong export mentality throughout the sector, and for the exceptional growth in apparel exports.

#### L. Legal Issues

Honduran producers encountered a variety of U.S.-based legal problems in their export operations. Although FIDE and IPAC provided assistance to help resolve these problems, they could have been prevented through a combination of earlier counselling and closer monitoring of the firm's export program.

- o A wood products company shipped two containers of waterbed parts to a U.S. company which declared bankruptcy prior to paying the bill. The Honduran firm made the mistake of shipping the materials on an open account, rather than requiring a letter of credit.
- o A cigar company did not recover \$15,000 in product shipped to a Chicago company, also due to bankruptcy and shipping on an open account.
- o An apparel company purchased 300 sewing machines, using FIDE financial assistance, but a U.S. "partner" stole \$28,000 intended for the freight forwarding company. The freight forwarder impounded the machines, intending to auction them to recover costs. IPAC hired attorneys, using the Intermediary Fund, to file actions to stop the auction of the equipment and to eventually recover the equipment on a favorable legal settlement.

**APPENDIX 1**

**Contract Summary  
July 1987**

TO: Ramon Medina Luna, FIDE  
Norman Garcia, FIDE

August 1, 1987

FROM: Richard Koskella, IPAC

SUBJECT: JULY 1987 MONTHLY REPORT

This report covers the July 1987 marketing activities which include IPAC, subcontractors (CACI, IBSEN, IESC), and intermediaries.

The report format is as follows:

- Summary reports, IPAC and subcontractors
- Project status sheets and Contact sheets, IPAC and subcontractors (tabs)

Sales made during July totaled \$4,916.52.

Year to date total sales are \$123,336.37.

Highlights of IPAC's efforts were:

- o Furniture Study for Hulera Sula. The study was completed and submitted to FIDE. IPAC concluded that mahogany has strong long term demand in the U.S., and recommended a step-by-step approach beginning with developing sourcing relationships with U.S. companies for components and later developing a full line of furniture.
- o Honduras Visit Rick Koskella and Steve Graubart visited Honduras during the week of July 27-31 to discuss ongoing programs and host the visit of Ashley furniture.
- o Visit of Ashley Furniture to Derimasa. Chuck Vogel, Executive VP of Ashley, visited FIDE and Derimasa on 28-29 July to explore the potential for a joint venture in pine furniture. A return visit by Derimasa and followup work by IPAC is required.
- o Furniture Companies Followup. IPAC concentrated on deals with several furniture and wood companies, including:
  - Madetex/Decurtis program for poster beds. Frank

production program at the rate of 50 beds/month.

- GF, EASCO, and Borneo Sumatra purchasing doors and door jams from Del Bosque. This was discussed during the IPAC visit, and the program appears to be moving forward again.
- Woodstuff/Derimasa. Sample arrived in late July for Derimasa quote. Following acceptance of quote, additional samples will be sent and program started.
- o Bobbin Show. IPAC continued preparation for FIDE attendance at the upcoming Bobbin Show in September.
- o Cigars. IPAC continued a high priority effort to start the Martin Brothers program. The final pricing structure was agreed between MBI and Plasencia, and agreement was reached to proceed with design of the package. Marketing should begin in September. Sales by E.A. Vega were \$2,148.81, which represented a slowdown in sales due to 1) companies waiting to buy at the Atlanta show in August, and 2) Al Taylor dropping off the program.
- o Intermediaries. The following list describes intermediaries which were active in June.
  1. E.A. Vega Sales. FIDE made a decision to discontinue funding E.A. Vega sales after August except for private label programs.
  2. Hoffman Associates. IPAC and Hoffman signed amendment 1 to the original contract under which Hoffman Associates will market selected products, with the commission structure to be agreed for each product between FIDE, Hoffman, and the Honduran supplier. FIDE must initiate the pork program as proposed by Hoffman.
  3. Decurtis Trading Company. IPAC funded the travel expenses of Frank Dowgwilla to provide technical assistance to Madetex for the Hickory program.

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IPAC PROJECTS

<u>PROJECT STATUS</u>	<u>PRODUCT</u>	<u>HONDURAN COMPANY</u>	<u>U.S. COMPANY</u>	<u>JULY SHIPMENT</u>	<u>SHIPMENT As of 8/1</u>	
<b>CIGARS</b>						
1*	Cigars	Plasencia	E.A. Vega	\$4,916.52	\$36,464.37 <sup>+</sup>	
2*	Cigars		Swisher/Martin Brothers			
4I	Cigars		Topper			
<b>APPAREL</b>						
1	Apparel	Bolivar	G&M Manuf.		\$ 9,000	
2	Pants	Bolivar	Cooperman Pant Co.			
4I	Lingerie		Intl. Playtex Co.			
4	Shorts		Northwear Fashions			
4	Apparel		Stafford Company			
4	Lin., guay.		Gilbert Hill and Assoc.			
4	Slippers		R.G. Barry Corporation			
5	Lingerie	Lovable	Tradepower			
5*	Shirts		Hampton Industries			
5*	Apparel		Key Industries Inc.			
5*	Childwear	Intermoda	Wear Me Apparel Corp.			
<b>FURNITURE</b>						
2*	Waterbed	Derimasa	Woodstuff Manuf. Co.			
2*	Mahog.	Madetex	DeCurtis Trading Co.			
3	Futons		New Moon			
2I*	Furniture		Ashley Furn. Industries, Inc.			
4	Furniture		Steve Silver Trading Co			
4	Pine		Case/Casard			
4	Furniture		Hammary			
4	Mahog. comp.		Salem Square			
4	Furniture		Workspace Inc.			
4	Mahog.		Wright Table Co.			
4	Oak		Base Control Corp.			

<sup>+</sup> Difference from June Report due to additional sales information provided by E.A. Vega.

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4	Pine		Brown Street Furniture
4	Furniture		Broyhill
5*	Furniture		Royal Sales Co.
4I	Furniture		Ladd Corporation
4	Furniture		The Freclich Companies
4	Furniture		Norman Hekler & Assoc.
4	Mahogany		Kittinger
4	Mahogany		Madison Square
4	Futons		NI World Trade
4	Furniture		North Hickory
4	Furniture		Old Hickory Tannery
4	Furniture		Schott Furniture
4	Mahogany		White of Mebane
4	Mahogany		Windsor Galleries
4	Mahogany		Sligh Furniture
5	Oak		Douglas Furniture
5	Pine		Harris of Pendleton
5	Chairs		Montgomery Chair

**WOOD PRODUCTS**

2*	Doors, Jams	Del Bosque	Borneo Sumatra Trading Co.
2*	Jams, Moldings	D Bos, Prod	GF Company
2*	Doors	Del Bosque	Easco, Inc.
4	Doors		Molduras y Maderas Tratadas
4	Waterbeds		BFI
4	Doors, Jams	Del Bosque	F. Scott Jay & Co.
4	Lattice		Walker-Williams Lumber Co.
4	Waterbed Pedestals		Sea Breeze
4	Variety		Newell Industries
4			Steve Silver Trading
5	Mahogany		Country Leisure
5	Yardsticks		International Importers
5	Dimension		Country Leisure Manuf.
5	Carvings		Aquariums Unlimited

**OTHER PRODUCTS**

4I	Elect	INTEL	International Communications Systems, Inc.
4I*	Elect		American Cable Supply Corp.

5	Totes	Bob Allen Sporting Goods Inc.
4	Wood Pieces	Base Control Corp.
	Shrimp	Daniel Bright
5	Fish	Cultured, Inc.
4	Variety	Primex

1. Completed deal
2. Advance stage (countersample received, field trip)
3. Intermediate stage (Hond quote received, waiting for client react)
4. Beginning stage (research conducted; brochure/specs and/or sample
5. Deal stalled I. Investment

\* Indicates change from previous report

CBPC MEMORANDUM

July 31, 1987

Ref: US0731G1

TO: Alina Morales, FIDE  
Richard Koskela, IPAC

FROM: Richard Paullin, Manager *RP*  
Alma Gutiérrez, Trade Specialist *AG*  
Charles Foster, Trade Specialist *CF*

SUBJECT: CBPC Promotional Activities for July 1987

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During the month of July, we have concluded an apparel trade deal between Ledamor and Textiles Maya with an approximate annualized value of \$75,000 F.O.B. Honduras (additional information is included in this report). We have established solid buying interest in refried beans (Alimentos del Valle) and natural lime juice (Empresa Agricola Rana).

Previously consumated deals were monitored and great effort was put in promoting Caprisa, Porcelanas y Cerámicas de Honduras and Guantesa. Staff vacation, both at CACI and FIDE, resulted in slow monthly activity. We were unable to attend the Chicago Gift Show.

During the month of August, we will concentrate our efforts on monitoring ongoing deals and developing new ones, and will attend the following shows: Unfinished Furniture Show, National Hardware Show, National Trade Show of Retail Tobacco Dealers of America, the Automotive Parts and Accessories Association Show and the Midwest Shoe Show. FIDE staff members will be contacted prior to show attendance to coordinate representation.

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CBPC/FIDE  
TRADE/INVESTMENT ACTIVITY  
July 1987

<u>Project Status</u>	<u>Product</u>	<u>Honduran Company</u>	<u>U.S. Company</u>	<u>July Shipment</u>	<u>Shipment as of 7/8</u>
<b>AGROINDUSTRY</b>					
1	Cigars	Placencia Cigars	Old Chicago Smoke Shop		\$ 7,500
4*	Plantain Chips	Alimentos Dixie	Marcas Distributors		
4*	Plantain Chips & Refried Beans	Alimentos Dixie & Alimentos del Valle	La Preferida		
4*	Plantain chips	Alimentos Dixie	Dae-Julie, Inc.		
4*	Bottled lime juice	Empresa Agricola Rana	EMCA Group		
<b>APPAREL/SPORTING GOODS</b>					
11	Women's Apparel	Blondie	United Apparel		
1	Women's Sportswear	Textiles Maya	Ledamor Company		
2	Bowling Shoes	CAPRISA	Ray Sears & Assoc.		
4	Sportswear	N/A	Union Jacks		
4*	"	N/A	All American Spirit		
4	Leather Boots	CAPRISA	Red Wing Int'l		
4*	" "	"	Frontier, Inc.		
4	Women's Apparel	N/A	Spiegel		

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CBPC/FIDE  
TRADE/INVESTMENT ACTIVITY  
July 1987

<u>Project Status</u>	<u>Product</u>	<u>Honduran Company</u>	<u>U.S. Company</u>	<u>July Shipment</u>	<u>Shipment as of 7/87</u>
4I*	Women's/Men's Apparel	N/A	Maquiladores Unidos del Centro, Mexico		
4	Soccer Balls	Guantesa	Transtech		
5*	Children's Apparel	Intermoda	Kessler		
5*	" "	"	Wolverine		
<b>FURNITURE/WOOD PRODUCTS</b>					
1	Furniture Acces.	Derimasa	Butler Specialty		\$ 50,372
2	Wooden Box	N/A	Spaulding & Frost		
3	Wood Drawer Guide	N/A	Vicking Int'l		
4	Wooden Matches	Fosforera Hondureña	Several		
4I	Plywood	N/A	American Int'l Forest		
4I	Air Mattress	N/A	Siesta Corporation		
4I	Computer Furniture	N/A	Pro-Vid Supply Corp.		
5*	Fire Starter	Maderas S. de R.L.	Short Co.		
5*	Furniture Parts	Derimasa	American of Martinsville		

CBPC/FIDE  
TRADE/INVESTMENT ACTIVITY  
July 1987

Project Status	<u>Product</u>	<u>Honduran Company</u>	<u>U.S. Company</u>	<u>July Shipment</u>	<u>Shipment as of 7/87</u>
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OTHER PRODUCTS

4*	Stoneware & Porcelainware	Porcelanas y Cerámicas de Honduras	Jay Imports		
5*	" "	" "	Williams-Sonoma		
5*	" "	" "	De Novo Ceramics		
5*	Cordage	Hondufibras/other	Aamstrand		
51*	Surgical Blades	N/A	Surgimed U.S.A.		

1. Completed deal
2. Advanced stage (countersample received; field trip)
3. Intermediate stage (HO quote received, waiting for client reaction)
4. Beginning stage (research conducted; brochure/specs. and/or samples sent to HO)
5. Deal stalled
- I. Investment
- \*. Indicates change in status from previous month

6/1

August 1, 1987

TO: Richard Koskella, IPAC

FROM: Lee Gordon, IBSEN

SUBJECT: Monthly Report: Summary of Activities July 1987

The major activity for the month of July was the "Invest in Honduras" seminar held July 9 in Los Angeles. The keynote address on opportunities for apparel producers was given by Harvey Wallender of IESC. Steve Graubart gave the presentation on the opportunities for furniture manufacturers and Marco Matute presented an overview on the Honduran apparel industry.

Several attending companies are planning to visit Honduras in the month of August to follow up on their programs. In the month of July, Morton Forshpan and Martin Raft of Chauvin and Blueprint visited Honduras, and have reported that they are planning to set up a new manufacturing operation. Companies which have indicated plans to visit Honduras in the near future include S. Maya, Rainbow West, Flair Inc., Gordon and Smith, Ocean Pacific, and 722 Inc. Our workplan for the month of August will be to coordinate these travel plans, followup on other apparel leads, and develop new wood product projects.

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IBSEN PROJECTS

<u>PROJECT STATUS</u>	<u>PRODUCT</u>	<u>HONDURAN COMPANY</u>	<u>U.S. COMPANY</u>	<u>JULY SHIPMENT</u>	<u>SHIPMENT AS OF 7/87</u>
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**APPAREL**

2*	Shirts	Intermoda	Blueprint	
2*	Surfwear		S. Maya	
2*	Surfwear		Gordon and Smith	
3*	Surfwear		Ocean Pacific	
3*	Sportswear		Flair	
3	Shirts	Bolivar	Tomato	
4	Surfwear		Catchit	
4	Surfwear		Inter. App	
4*	Surfwear		T&C Surf	
5	Apparel		Dinosaur	
5*	Shirts		Gallery Ind	
5	Apparel		Calsew	

**FURNITURE:**

1	Futons	Derimasa M & M Del Norte	Chet Stolar	20,000
3	Mahog.	Madatex	J. Fedele	
4	Mahog.	Caoba	Southern Heritage	
4	Mahog.	Induma	The Cricket	
4	Waterbeds		Trend West/Genesis	

**OTHER**

4	Shoes	Caprisa	American Sporting Goods	
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1. Completed deal
2. Advance stage (countersample received, field trip)
3. Intermediate stage (Hond quote received, waiting for client react)
4. Beginning stage (research conducted; brochure/specs and/or sample
5. Deal stalled I. Investment

\* indicates change in status

Summary of Activities July 1987  
IESC Honduras Program

Work in July focused on development work for the shoe uppers assembly promotion program. Other activities included continuing follow-up with U.S. companies, some continued direct contact with New York area garment-related companies, participation by Wallender in the Lee Gordon/FIDE garment seminar in Los Angeles, and attendance by Pruett at a seminar on off-shore sourcing held in Stamford.

Footwear Uppers  
Assembly 807 Program

Basic background material on the opportunity for uppers assembly in Honduras has been circulated to FIDE and IPAC for review and comment.

Footwear program work in July centered on the upcoming National Shoe Fair in New York (1-4 August).

Footwear Industries of America, the primary industry association, has been informed of our activities. They currently wish to remain neutral on the subject of offshore uppers assembly due to its sensitivity. International Footwear Association, which represents footwear importers, supports in a general manner the concept of offshore uppers assembly. Both these groups have received detailed discussion pieces and will be contacted along with other industry groups during the Shoe Fair.

Recent IESC footwear volunteers received information and a written survey. The surveys have generated several leads to follow-up at the Shoe Fair. The majority of these volunteers, all with significant experience in the U.S. footwear industry, agree strongly that the concept of offshore uppers assembly is a worthwhile, sound idea, and that it is good for U.S. footwear companies.

Letters and information have been sent to eighty-seven targeted companies identified as likely prospects by an IESC volunteer. These companies are being contacted prior to the Shoe Fair to arrange meetings. A number of companies are seriously interested in preliminary discussions.

Participants at the Shoe Fair will include Pruett, Wallender, Sam Adelman (retired vice-president of Commonwealth Shoes), and possibly other IESC trade and investment staff. Representatives from several Honduran shoe companies are expected to attend, along with FIDE representatives.

Our approach will be to encourage U.S. companies to do a trial assembly of a small quantity of uppers in Honduras to gain a sense of the quality capabilities. Eventually, we want to encourage these companies to begin active uppers assembly in Honduras, either through using the existing (but limited) capacity of Honduran shoe companies, working to expand the capacity of those firms, or setting up their own facilities.

### Garments

Work in garments was limited due to the emphasis on the shoe program. We expect that FIDE representatives attending the Shoe Fair also will visit Justin-Allen, a garment lead in New York.

IESC/Honduras has just completed an evaluation/assistance project in garments which we expect will provide us with one or two small contractor opportunities.

### Tourism

We are organizing a volunteer committee to provide guidance on tourism investment strategies.

### PLANNED ACTIVITIES FOR AUGUST

Continue work with existing leads.

Participate in National Shoe Fair and organize follow-up work.

Expand direct company contact in garments.

Continue lead development through IESC volunteers, association contacts, etc..

[file HONDURAS:julreprt.hon]

IBSC Venture Leads Status Summary

<u>Chrono Number</u>	<u>Project Status</u>	<u>Project</u>	<u>U.S. Company</u>	<u>Honduran Co.</u>
1	4	Sweatshirts	Touch of Brilliance	
2	4	Bedspreads	Charles Curtain Co.	
3	4I	Facade Panels	Stone Concepts	
5	4	Sketch-Paks	Pictura Products	
6	5	Housing panels	Covington Tech.	
14	7	Uniforms	Domino's Pizza	
15	4	Bus Reconditioning	Ronnie Jarman	
16	4	Tractor Licensing	Waverly Tractor	
17	4/3	Bookcases	Curtis Co.	Derimasa
19	4	Driveshaft yokes	Clutch Products	
20	4	Plastics	P.V. George America	Plasticos Orio
21	4	Animation	Michael Rowland	Calderon Public
22	4	Handicrafts	Mayan Enterprises	Horemain
23	4	Biomed Licensing	V-Tech	
24	4	Handbags	M & A Handbags	
25	4	Women's Sportswear	Cactus Mfg.	
26	4	"	Carry-Back Ltd.	
27	4	"	Eleanor Brenner Ltd.	
28	4	Used Process Eqpt.	Universal Process Equipment	
29	4	Dispersion licensing	CDI Dispersions	

30	4	Wood products	Mer-Cor Trading Group
31	4I	Garment hardware	Mack Cutting/Greenspan Hrdwre
32	4I	Garment factory	Justin-Allen
33	4I	Plastic recycling	John Bonham and associates

- 1 - completed deal
- 2 - advanced stage (countersample rec'd, field trip)
- 3 - intermediate stage (HO responses rec'd, wait for US client reaction)
- 4 - Beginning stage (research, prelim information, specs, and/or sample)
- 5 - Deal stalled
- I - investment

[file hosumary.cht]