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Latin America and Caribbean Trade and Investment Project

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Final Evaluation

**Fundación de Inversiones Y Desarrollo
de Exportaciones (FIDE)**

(Export Development and Investment Promotion Activities)

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LIST OF ACRONYMS

AFL-CIO	American Federation of Labor - Congress of Industrial Organizations
AIFLD	American Institute for Free Labor Development
AMITIGRA	Amigos de "TIGRA"
ANDI	Asociación Nacional de Industriales
ANEXHON	Asociación Nacional de Exportadores de Honduras
CACM	Central American Common Market
CADERH	Centro de Adestriemiento y Desarrollo de Recursos Humanos
COHDEFOR	Corporación Hondureña de Desarrollo Forestal
COHEP	Consejo Hondureño de la Empresa Privada
CONAFEXI	Consejo Nacional para el Fomento de Exportaciones y Inversiones.
COP	Chief of Party
CTH	Confederación de Trabajadores de Honduras
EDS	Export Development and Services Project
ENEE	Empresa Nacional de Energía Eléctrica
EOPS	End of Project Status
EPZ	Export Processing Zone
FEPROEXAAH	Federación de Asociaciones Agrícolas Hondureñas para Promoción de Exportaciones. Later FPX .
FERD	Fondo Economico de Reestructuración de Deuda
FESITRANH	Federación de Sindicatos de Trabajadores del Norte de Honduras
FIDE	Originally Fundación de Investigación y Desarrollo Empresarial. later, Fundación de Inversiones y Exportaciones.
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product

GEMAH	General Management Association of Honduras
GOH	Government of Honduras
GSP	Generalized System of Preferences
HONDUTEL	Compañía Hondureña de Teléfonos
INCAE	Instituto Centroamericano de Estudios de Administración de Negocios
LOP	Life of Project
NAFTA	North American Free Trade Agreement
NGO	Non-Governmental Organization
PACD	Project Activity Completion Date
PVO	Private Voluntary Organization
UDAPE	Unidad de Análisis de Políticas Económicas
USAID	United States Agency for International Development
ZIP	Zona de Importaciones para Procesamiento

FIDE FINAL EVALUATION

1. EXECUTIVE SUMMARY

The Foundation for Research and Business Development (Fundación de Investigaciones y Desarrollo Empresarial - FIDE) was established in February 1984 as a mechanism for implementing the non-traditional export development component of USAID/Honduras' Export Development and Services Project, the goal of which was to promote economic growth and employment and which started up in August 1984. Within this component, FIDE was expected to concentrate on nontraditional manufactured exports.

The EDS Project was part of USAID/Honduras' strategy to cope with the difficult economic and social situation then existing in the country. The 1982 restoration of democracy was still new and relatively untried. Both countries adjacent to Honduras were in civil insurrection. The second oil shock of 1979 and the world recession beginning in 1981 had resulted in a decline in the GDP in real terms and an even sharper decline in per capita income. The situation was made even worse by the reluctance of the government to undertake macroeconomic reforms leading the country away from an overvalued currency and a highly protected, inefficient domestic industry. To help preserve Honduras' newly emerged democratic institutions, maintain social harmony and reverse the economic decline, USAID chose to promote nontraditional exports. The process involved directing Honduran industry towards export markets and, in parallel, to seek to reform macroeconomic policy.

FIDE was one of two institutions funded as part of the EDS nontraditional export development component. End of Project Status (EOPS), as originally established, did not distinguish between FIDE and its agricultural counterpart and called for: 1) a favorable policy environment; development of export institutional capability; \$53 million in valued added from exports by 1990; and, 4) adequate financial services for exporters. The Project envisioned that FIDE would engage in four broadly defined activities in support of its objectives: non-traditional export development, promotion of "labor-intensive" exports, assistance to exporters to obtain financing and improvement of the Honduran climate for business and investment. It was also expected to achieve financial self-sufficiency over the life of the Project.

During its initial three years of operation, FIDE concentrated on export development, with emphasis on wood products and apparel. Results were modest in export development, but FIDE was involved in assisting industry obtain financing through certification of eligibility for access to an export credit line set up as part of the EDS Project. However, during this period FIDE's institutional support division dedicated substantial effort to improving the legal framework for export development and was principally responsible for the amendment of the law permitting duty-free temporary import of materials to be processed and exported and a law permitting privately owned export processing zones.

The 1988 mid-term evaluation recommended that FIDE change its emphasis to one featuring

investment promotion directed at attracting off-shore assembly industries. The goals were to generate employment and foreign exchange. FIDE established promotion offices abroad and put substantial effort into attracting investment principally into export processing zones. Recognizing the success of this approach, USAID amended the Project in 1992 establishing new numerical targets for the period 1992-94. In late 1992 there was a change in USAID policy regarding the promotion of direct investment and in December 1993 USAID/Honduras terminated financial assistance to FIDE for such activities. Some funding was provided for the remaining eight months of the LOP, but for activities in policy analysis, especially in areas of workers' rights and environmental protection.

The EDS Project ended August 30, 1994 and a final evaluation was required. In view of the significant change in policy direction at the end of 1993, the Mission requested two evaluation reports: one of FIDE's core activities since the mid-term evaluation and the other of the "eight-month" program. This report assesses the relevance, effectiveness, efficiency, impact and sustainability of the FIDE component of the EDS Project, as well as judging whether its purpose was accomplished.

The evaluation team comprised four specialists. The Chief of Party, an experienced consultant with substantial USAID and Honduran background, was responsible for the overall direction of the evaluation. The economic specialist, also an experienced consultant with prior USAID and Honduran experience, was responsible for the assessment and quantification of the results obtained by FIDE through its export development and investment promotion activities. The two other members of the team, an environmental and a labor specialist, were not directly involved in the evaluation of FIDE's investment promotion activities.

The methodology used was a combination of documentary review and personal interviews. The team reviewed documents available at USAID and at FIDE and visits were made to export processing zones in northern Honduras, as well as to several other Honduran institutions.

The evaluators found that this subcomponent of the Project did meet its stated purpose, objective and outputs. FIDE-assisted firms generated over \$133 million in exports through 1990 and had created 10,300 new jobs, thus meeting the original quantitative objectives without regard to efforts of its sister, agriculturally oriented, institution. FIDE has also met or exceeded the targets set in 1992. In addition, its efforts in the policy area have contributed significantly to improving Honduras' business and investment climate.

Economic benefits accruing to the economy include: expanded national income and domestic consumption; job generation, especially for women; increased capital stock; an improved human resource base; and, improved commercial linkages and information resources. Direct contributions to the Honduran economy through 1993 are almost 35,000 new jobs, \$390 million in direct export sales and \$195 million in new investments. FIDE's success has been manifested primarily through the development of export assembly industries, mostly apparel. The current wage bill for apparel industry workers involved in export is \$58 million annually which, when combined with an estimated \$23 million in annual spending on intermediate inputs, alone represents about 2.4% of Honduran GDP. Factoring in an accepted multiplier of 2.5, results in a contribution to GDP of 6.0%. This is without regard to investment in industrial plant, which approaches \$200 million to date and is

expected to run at \$20-30 million annually.

The employment generation attributed to FIDE's efforts has served to alleviate poverty. Nearly half of the new hires (63% of the women) for the export apparel operations were previously unemployed. Seventy percent have been women as compared to a 30% national rate for female participation in the labor force. On the average, earnings for apparel industry workers are eighty percent higher than their previous earnings level and run 20-30% over the current minimum wage. Surveys undertaken in 1992 and 1993 in communities most impacted by export processing zone developments show significant improvement in quality of life indicators.

Project benefits in terms of technical assistance provided, individuals trained, employment and exports levels increased and an improved investment climate created are in place and should be sustainable without further assistance from FIDE, assuming, of course, continued favorable political and economic conditions. FIDE has achieved a position of financial self-sufficiency which enables it to maintain its core program of investment promotion and export development without further intervention from USAID. It is expected that FIDE will adapt its ongoing programs to reflect a modest decrease in available resources, e.g., by reducing its U.S. offices to one and by adjusting its sectoral emphasis to areas more in need of support, for example, de-emphasizing apparel

From the above it is apparent that FIDE's performance clearly met, and in many areas exceeded, the goals and objectives set out in the original Project as well as the 1992 amendment. FIDE's success argues for effectiveness of the Project's design. Its success, however, was also conditioned to improvements in the business and investment climate in Honduras coupled with substantial improvement in the geopolitical situation in Central America and in the world economy. FIDE's achievements have been built on the talent and dedication of its staff, support from a Board of Directors dedicated to modernizing Honduras, and a significant degree of flexibility accorded to its management by USAID. Overall, FIDE's performance has been such that USAID can consider the FIDE sub-component of the EDS Project a clear success.

Design elements which contributed to this success include the division of the EDS Project into separate components, insulating FIDE from problems or policy changes affecting other components. The decision to shift emphasis from purely export development to investment promotion aimed at off-shore assembly industries was a sound one as it permitted rapid achievement of new job and export earnings targets.

Recommendations are that FIDE should continue to serve as an instrument in support of the modernization of Honduran society and of the economy. Activities related to this recommendation would include developing support for privatization, better banking, insurance and securities legislation, informed private sector response to problems of health, education and the environment and support for innovative means to finance infrastructure development. But even more importantly, it is recommended that FIDE continue its program of broad national investment and trade promotion as well as promoting specific industries or sectors offering promise of expansion. Failure to maintain an active promotional campaign could lead to erosion of Honduras' present export industry base when instead the country needs to make it grow as rapidly as possible.

FIDE is virtually alone among Honduran institutions with the capacity to undertake these activities. Its ability to engage in policy analysis and dialogue is sharply limited absent additional sources of funding. It does have resources available to sustain and modify as necessary its existing, effective trade and investment promotion program. The evaluators believe that until and unless FIDE develops additional sources of funds, its priorities should remain that of industrial and trade promotion.

Lessons learned include that successful investment promotion, while dependent upon a favorable economic and social climate, need not be terribly expensive nor require a large supporting institution. Successful promotion does need a good product: in the case of Honduras this was readily available, low cost and reasonably productive labor within good proximity to the U.S. market.

Another lesson was that investment promotion concentrated on export assembly industries can produce far more rapid results in terms of employment and foreign exchange generated than export development based on transformation of local raw materials, the latter being a slow and expensive process.

With respect to operations, FIDE's experience shows the value of concentrated targeting, discrete geographical areas and only one or two industry sectors. Once a sustainable level of development is reached in a given product line, such as apparel, the promotional institution can shift attention to other areas. FIDE also established an ability to recover at least a small portion of its expenses through fees for services and commissions from park operators for successful marketing assistance. The level of fees, however, was far below that required for financial self-sufficiency and FIDE's experience reinforces the lesson that institutions involved in broad-based national trade and investment promotion can not be financed on a user fee basis.

2. PROJECT PURPOSE

2.1 Background.

The Foundation for Research and Business Development (Fundación de Investigaciones y Desarrollo Empresarial - FIDE) was established in February 1984 as a private sector institution devoted to non-traditional export development in Honduras. The founding institutions were ANDI (Asociación Nacional de Industriales), the National Exporters Association (Asociación Nacional de Exportadores Hondureños), the Honduran Business Executives Association (GEMAH) and the Honduran-American Chamber of Commerce. The president of the exporters association, Richard Zablah, became the first President of FIDE's Board of Directors, a position he has held ever since.

The formation of FIDE was in anticipation of the coming into effect of USAID's Export Development and Services Project (525-0207) which happened in August 1984. The goal of the EDS Project was to promote economic growth and employment. Its purpose was to increase nontraditional exports.

The EDS Project was part of USAID/Honduras' strategy to cope with the difficult economic

and social situation then existing in the country. Restoration of democracy, exemplified by the election of Roberto Suazo Cordova as President in late 1982, was still new and relatively untried. Both of Honduras' immediate neighbors were involved in civil insurrection: the U.S.-supported *contras* against the Sandinista government of Nicaragua and the Communist bloc-supported guerrilla movement against the government of El Salvador. There was real concern that the violence not spread to Honduras.

Traditionally the poorest of the Central American states, Honduras' social problems had worsened with the sharp drop in the economy. The second "oil shock" of 1979 combined with the U.S. recession beginning in 1981, added to the political uncertainties in the region, had led to a decline in Honduras' gross domestic product in real terms which meant, of course, an even sharper relative decline in per capita income. While Honduras had essentially dropped out of the Central America Common Market in 1969, the effective collapse of the common market at the beginning of the 1980's reduced even further the limited export markets which had been developed by Honduran industry, such as apparel exports to Nicaragua.

The economic situation was worsened by the unwillingness of the Honduran government to take the macroeconomic policy steps necessary to begin a corrective process. Honduras had participated in the general policy direction set forth in the CACM arrangement which was one of high tariff protection for manufactured goods and substantial government intervention in the economy through price controls, price supports and state-owned enterprises. Government-financed industrial ventures in many instances had failed as businesses and were now the property of the Government's own development bank. The Government considered maintenance of an overvalued exchange rate of two Lempiras to one U.S. dollar a matter of national honor and would not consider any form of devaluation, which led to foreign exchange shortages, favoritism in foreign exchange rationing and severe price and economic distortions.

To help preserve Honduras' newly emerged democratic institutions, maintain social harmony and reverse the economic decline, USAID's strategy chose as one of its instruments the promotion of nontraditional exports. This process involved directing Honduran industry, in recession and with considerable excess capacity, towards export markets in the expectation that success in selling product abroad would increase employment and generate the foreign exchange necessary to bridge the balance of payments deficit. This effort was to be complemented by parallel reform of Honduran macroeconomic policy designed to reduce government distortion of the economy and permitting market determination of prices and factor distribution.

2.2 Objectives.

FIDE was one of two institutions funded as part of the EDS Nontraditional Export Development Project. End of Project Status (EOPS) for this component, as established in the original Project Paper, did not distinguish between FIDE and its agricultural counterpart - FEPROEXAAH and called for: 1) a favorable policy environment; 2) export institutional capability established; 3) \$53 million in value added from Project-assisted exports by 1990; and, 4) adequate financial services available to exporters. FIDE was expected to concentrate on nontraditional manufactured exports and to generate \$43 million in export sales from labor intensive industries.

The Project envisioned that FIDE would engage in four broadly defined activities in support of its objectives: non-traditional export development, promotion of "labor-intensive" exports, assistance to exporters to obtain financing and improvement of the Honduran climate for business and investment. While applied levels of effort and emphasis have varied over the ten-year life of the EDS Project, FIDE has consistently maintained its programming within these defined activities. Another task assigned by the Project to FIDE was that over the Life of the Project (LOP) it attain financial self-sufficiency so that it could continue to provide services to the Honduran business community beyond the period of USAID's financial support.

During the initial phases of the Project, FIDE's major emphasis was on export development. It assisted Honduran manufacturers of tobacco products, apparel and furniture, among others, and was even involved in cultivated shrimp development. Part of FIDE's services included certifying the eligibility of selected Honduran exporters for loans provided under an export credit line established within the EDS Project. During this period FIDE's institutional support division dedicated substantial effort to improving the legal framework for export development and was principally responsible for the passage of a new and much improved law for duty free temporary import of materials to be processed and exported (1986) and a law establishing privately-owned export processing zones (1987). The new investment law (1986) which established a National Council for Export Development and Investment Promotion (CONAFEXI) was less successful as it lacked support at the Ministerial level and those government officials who did attend meetings were uncomfortable confronting representatives of the private sector.

2.3 Mid-Term Evaluation

The mid-term evaluation conducted in late 1987 concluded that conditions in Honduras were not as propitious for export development as had been thought and that short-term measurable results in terms of employment and foreign exchange generation were far more likely to result from investment promotion directed at off-shore assembly industries. The fact was that macroeconomic reform had not progressed as rapidly as expected. A review conducted in 1988 of USAID's export development strategy pointed out the inhibiting effects on exporters of the Honduran government's insistence on maintaining an overvalued currency and its failure to adopt meaningful macroeconomic reforms. As a result, FIDE downgraded, but maintained, its export development division while launching a major investment promotion campaign which included setting up three promotion managers in the US., two based in White Plains, NY, and one in Atlanta, GA.

In recognition of this change of emphasis, FIDE changed its name to the "Fundación de Inversiones y Desarrollo de Exportaciones". Initial investment promotional efforts were hampered by the absence of available industrial space: the first assembly operation within an Export Processing Zone (ZIP) began in February 1990. Since then, FIDE which had transferred its Atlanta office to Miami, managed its three offices very effectively, meeting its internal targets for attracting foreign investors. In addition, FIDE, with assistance from Taiwan private sector interests, opened a promotion office in Taipei for liaison with Asian investors. It should be remembered that this successful investment promotion campaign would not have been possible without the legislative initiatives promoted by FIDE in 1986 and 1987.

In 1987 USAID entered into a cooperative agreement with the Honduran Council for the Private Sector (COHEP) of which FIDE is a member. FIDE played a key role in this agreement through the provision of technical support needed for COHEP to qualify. It was assumed that COHEP would develop the capacity to handle policy analysis and initiatives for the private sector so FIDE disbanded its institutional support division. FIDE found, however, that there remained a need for technical analysis support to supplement COHEP's own capabilities and, either through COHEP or directly with other institutions, to backstop public institutions in matters affecting trade and investment. This led eventually to a more formal undertaking by FIDE in 1993, the establishment of an advisory council referred to as FIDE's "Think Tank".

The Project was amended to grant additional funding for FIDE's activities for the period September 1992 to August 30, 1994. The amendment established four classes of expected outputs for the period ending August 1994: institutional strengthening (number of companies assisted by FIDE); exports (number of companies assisted that are exporting); employment generated; and, investment (number and value of new investments).

3. PURPOSE OF EVALUATION

The Export Development and Services Project ends as of August 30, 1994. Under USAID procedures, a final evaluation is required. However, this Project underwent a significant change of direction in the course of 1993 as USAID/Honduras implemented new USAID policies severely restricting assistance for direct investment promotion. USAID funding for FIDE's core activities ended on December 31, 1993. Additional funding was provided to FIDE for the last eight months of the LOP, but only for policy analysis and institutional support in the areas of workers' rights, environmental protection and enhanced national competitiveness. USAID/Honduras asked that the "eight month" program and FIDE's core, investment and export-related, activities be evaluated separately. Thus, this evaluation report addresses FIDE's activities since its mid-term evaluation in 1988, when it changed its program direction, and only in the areas of export development and investment promotion. Eight-month policy activities were subject of a separate report.

The purpose of this evaluation has been to draw conclusions as to the overall success of the FIDE component of the EDS Project during the last, approximately six years of the Project. The evaluation assesses the relevance, effectiveness, efficiency, impact and sustainability of the FIDE component, as well as a judging whether the component accomplished its purpose. The evaluation team also identified lessons learned from this component of the Project which might be applicable to other USAID projects.

3.1 Evaluation Team.

The evaluation team comprised four specialists. Wesley Boles, Chief of Party, an experienced consultant with previous involvement in seven USAID Project evaluations, including three in Honduras, as well as one year's service with USAID/Honduras's EDS Project, was responsible for the overall direction of the evaluation effort, including the submission of the written reports and the analyses of institutional and management issues. Philip Rourk, the economic specialist, also an

experienced consultant with substantial USAID experience, including work in Honduras such as an economic analysis in support of a proposed investment promotion project, financial and economic studies for housing development and an organizational review of the Honduran government's capacity to promote trade and investment, was responsible for the assessment and quantification of the results obtained by FIDE through its export development and investment promotion activities. The two other members of the team, Dr. William Douglas and Dr. Kit Krickenberger, were not directly involved in this evaluation report, their specialization in labor and environmental issues led to their attention being directed to the report on the "eight-month" policy analysis project.

3.2 Evaluation Methodology

The methodology used was a combination of documentary review and personal interviews. The team reviewed files and other documents available at USAID and FIDE. Visits were made to ZIPs (Industrial Processing Zones) in Choloma, Villanueva and La Lima and the Free Zone in Puerto Cortés. Visits were made to COHEP, the Economic Analysis Unit to the Economic Cabinet, the Chamber of Commerce and Industry of Cortés and the Honduran American Chamber of Commerce in San Pedro Sula. In addition, staff members of USAID/Honduras and FIDE itself were interviewed.

4. FINDINGS

For the purposes of this report, the findings have been organized in the order of the questions posed in the evaluation request's terms of reference.

4.1 -Did the Project meet its stated purpose, objective and outputs?

The project's originally stated purpose was to "Increase non-traditional exports" from Honduras. Original output targets and objectively verifiable indicators established for the project included a \$30 million increase in GDP; the creation of 10,000 jobs by 1990; establishing a policy environment favorable to exports; establishing "export institutional capability"; generating \$53 million in value-added from exports by 1990; ensuring the availability of adequate financial services for exporters; generating a total of \$59 million in export sales during 1990; and developing \$73 million in dollar resources for the Trust Fund for exports. Of these, the generation of \$43 million in non-agricultural export sales in 1990 is the only target that can be specifically assigned to the FIDE component of the project, the rest being joint targets to which both FIDE and FEPROEXAAH (later, FPX) were expected to contribute.

For the period between September 30, 1992 and August 30, 1994, additional targets specific to the FIDE component were established. These included assisting 50 exporting companies, foreign and domestic; contributing to the creation of 5,150 new jobs, of which 85% were to be held by women; and assisting in the realization of 42 new investments with a value of \$17,850 thousand or more.

In response to the question of whether the FIDE-component contributed to the

achievement of the overall project's purpose of increasing non-traditional exports, the answer must be a clear "yes". By the end of 1990 FIDE-assisted firms had generated over \$133 million in export sales, with \$53 million exported during 1990 alone, and had provided over 10,300 new export-sector jobs to the Honduran economy. Thus, FIDE surpassed its individual target of \$43 million in non-agricultural export sales during 1990 by over \$10 million, and had satisfied the overall project's job creation targets entirely on its own.

With 1990 attributed-exports of \$53 million, it is also reasonable to conclude that the FIDE component was contributing its "fair share" of the overall project's domestic value-added and increased-GDP targets¹.

Much more so than its agricultural-export oriented counterpart, FEPROEXAAH, FIDE contributed heavily to the improvement of the Honduran policy environment with respect to exports during the initial project period. Several key pieces of legislation (See our discussion of Section 4.2, below) passed during the period can be traced substantially back to FIDE initiatives, and the organization also contributed to the development of streamlined regulatory treatment of business in general, expedited customs administration, and the implementation of more outward-looking and competitive exchange rate and tariff policies. Numerous consulting studies and technical assistance contracts were implemented through FIDE during this period, including the analysis supporting the establishment of a Honduran stock exchange and the expansion of COHEP into an effective representative for the private sector, contributing directly to the improvement of the policy environment and the country's (individual businesses and numerous public and private sector institutions) capacity to export. FIDE also participated directly in the management of the USAID-funded Trust Fund for exports, assisting domestic banks to better manage the risks involved in export-financing, thus contributing to making adequate financial services available to Honduran exporters.

Though full data for 1994 are not yet available, it is clear that FIDE's output targets for the September 1992 to August 1994 period have also been substantially met or exceeded. Compared to an employment generation target of 5,150 jobs for the two years, for example, FIDE-assisted firms provided over 8,000 new jobs during 1993 alone. Similarly, the total targeted value of new investments for the period (\$17.8 million) has been exceeded many times over, with more than \$54 million registered during 1993 alone. Available data seems to indicate that these achievements may correspond to a slightly smaller number of assisted firms and new investments than targeted in the 1992 revised project documentation. That is, the data point towards FIDE having worked with a smaller number of individually larger firms during this most recent period

¹ FIDE estimates show that an average of 34 percent of apparel exports under the 807 Program, and 54 per cent of the value of total apparel exports between 1990 and 1993 corresponded to domestic value-added. Other manufactured exports (e.g., wood products, leather goods) are presumed to have higher domestic content than apparel. Using 54% as a basis for estimating value-added from FIDE-attributed exports in 1990 shows that FIDE contributed slightly more than half of the project's total value-added target. Since domestic value-added corresponds virtually dollar for dollar with GDP, this performance also clearly meets FIDE's share of the GDP expansion target for that year.

than originally anticipated, but, if this is so, the difference with respect to number of firms assisted is small, and does not represent any significant deviation from what was originally agreed.

4.2 - How did the FIDE component contribute to the Mission's 1994-95 Action Plan objectives, and more specifically, to Strategic Objective 2: Increased investment and Trade. Were Program and Action Plan indicators achieved?

Within Strategic Objective 2 there are two outputs required: 2.1) A sound investment climate and, 2.2) increased competitiveness of the private sector. Output for 2.1 can translate into removal of impediments. Here FIDE was instrumental in pushing for the new investment law of 1992, implemented in 1993, which establishes a one-stop center for investment processing. A real accomplishment also appears to have been support for new Patent and Copyright laws, passed in late 1993, and the technical support now being given by FIDE to the Copyright office in terms of computers. Mention should also be made of FIDE's success in helping the Maquiladora's association develop its apparel export monitoring system, a precondition to managing quota problems and developing effective export strategy in apparel. During this period FIDE also established a consultative council (the "think tank") which produced a comprehensive analysis and recommendations for action across a wide range of public policy issues. A further effort, detailed in the evaluation report on the eight-month program, is the reform of the Labor Code and reorganization of the Labor Ministry, in process of implementation. Reorganization of COHDEFOR can also be viewed as a removal of impediments to trade and investment.

Program and Action Plan indicators of a sound investment climate and increased competitiveness of the private sector included the growth of gross private investment in the Honduran economy, US.-Honduran bilateral trade, total manufactured exports from Honduras and full-time employment in the manufacturing sector. As shown below, steady progress has been made in most of these areas throughout the period for which data is available:

1994-95 Action Plan			
Indicators for Strategic Objective 2			
Year	1991	1992	1993
1. Gross Private Investment - \$MM	424	435	431
2. US.-Honduran Trade - \$MM	1,170	1,576	1,781
3. Manufactured Exports to US. - \$MM	261	452	605
4. Manufacturing Employment - (000s)	138.3	149.2	n.a.

Sources: 1) Central Bank of Honduras; 2,3) U.S. Department of Commerce; 4) Action Plan

Although Action Plan indicators do not seek to directly attribute results to FIDE activities, it is clear that a substantial portion of expanded bilateral commerce is closely related to FIDE's work. This is evident from an examination of the components of manufactured exports, which indicates that Honduran apparel exports to the US. grew from approximately \$196.3 million in 1991 to almost \$508 million in 1993, accounting for over 90 percent of the expansion in total manufactured exports that is recorded above. As illustrated by the Table Cumulative Job Creation, and as will be expanded upon in what follows, FIDE's efforts are very closely tied to

the phenomenal expansion in the apparel assembly industry that has taken place in recent years.

4.3 - What economic benefits accrued to the economy as a whole as a result of the activities carried under the Project? Did the net economic benefits justify the allocation of resources to this Project?

Economic benefits accruing to the Honduran economy from the project can be enumerated as follows:

- i) expanded national income and domestic consumption from increased production for export, and from increased domestic demand generated by increased direct and indirect wages, direct and indirect investment expenditures, and direct project expenditures;
- ii) increased employment of labor, especially women, leading to improved utilization of domestic resources;
- iii) increased capital stock in parks and infrastructure;
- iv) increased human capital through worker training, technology transfer and competitive stimuli to Honduran entrepreneurs, technicians and managers;
- v) improved commercial linkages and information resources.

Though difficult to quantify exactly, net annual exports attributable to the project are in the tens of millions of dollars, and the total related expansion of national income and consumption is at least double export growth, by even the most conservative estimate of an income/expenditure multiplier for Honduras. As the expansion of Honduran exports can be considered to be permanent, barring some unforeseen catastrophe, it is evident from the above that the allocation of resources to the project -- \$8 million in U.S. dollars and 69.5 million in Lempiras (equivalent to more than \$ 20 Million) -- is amply justified by the economic benefits that have been generated.

4.4 - What are the direct contributions of the Project to the Honduran economy? What measurable impact did the Project have related to new investment, export production, job creation, improvements in the overall investment climate, generation of foreign exchange?

As tabulated by FIDE and shown in the Table that follows, the project's direct contributions to the Honduran economy are most readily measured in terms of increased exports, new jobs created, and the value of new investments realized by FIDE-assisted firms. FIDE has kept detailed records of its assistance to Honduran and foreign firms over the years, and attributes export growth, job creation and investment to its efforts only when a substantial contribution has been made to an exporting firm's activities over a period of time. Through 1993, FIDE estimates that it has made a substantial contribution to the development of almost 35,000 new direct jobs, \$390 million of direct export sales, and approximately \$195 million in new investments. As discussed in more detail below, most of FIDE's successes have been concentrated in the export-assembly industries, especially apparel manufacturers, that have located in the Honduran EPZs.

Indirect spending and employment creation related to the direct exports, investment and jobs cited above multiply the total estimated impact of FIDE activities since 1985 by a factor of two to three

Table FIDE ACHIEVEMENTS
1985 TO 1993
(\$ values in U.S. millions)

INDICATOR	5-YEAR LOP TARGET	1985-1989 5 YEARS	1990 Annual	1991 Annual	1992 Annual	1993 Annual	TOTAL, 9 YEARS
Firms contracting FIDE	40	81	9	7	30	10	137
FIDE clients newly exporting	50	44	20	15	18	18	115
Incr. value of exports	\$40.0	\$80.7	\$52.9	\$74.8	\$85.0	\$96.0	\$389.4
New jobs created	7,000	6,438	3,920	9,345	6,496	8,359	34,558
New investments realized	10	26	15	19	19	20	99
Amount of new investment	not specified	\$45.5	\$35.8	\$21.2	\$38.6	\$54.3	\$195.4

44

times.

As indicated earlier, most of the growth in non-traditional export industry in Honduras in recent years has been registered in the apparel assembly sector. Current employment in this sector (June 1994) is estimated at 47,000 jobs, up from about 42,000 at the end of 1993.

Average wages paid to apparel workers in Export Processing Zones (EPZs) are estimated at about Lps.743, or \$114, per month during 1993². Thus, it can be estimated that the export apparel industry generated an annual wage bill of about \$58 million during 1993.

In addition, a recent study by the Central Bank of Honduras³ indicates that apparel companies in export processing zones spend approximately 40.24 cents on intermediate inputs (rent, utilities, transportation, maintenance and repairs, etc.) for every dollar spent on direct wages. Thus, it can be further estimated that the sector spent approximately \$23 million during 1993 on intermediate inputs purchased in Honduras.

In relation to GDP estimated at about \$3.4 billion in 1993, direct wages and purchases of the apparel assembly industry represent approximately 2.4 percent. The full contribution to the nation's GDP, however, must also consider indirect spending generated in the economy as consumption expenditures from direct wages and direct purchases generate further wage payments, consumption and spending by the recipients of the first round of expenditure. Economists familiar with the Honduran economy estimate the value of the GDP-expenditure multiplier at about 2.5, meaning that the injection of \$81 million in the form of direct wage payments and direct purchases of the apparel assembly industry during 1993 resulted in a total expansion of GDP of about \$204 million, or about 6.0 percent of total GDP in that year.

This is clearly a very significant contribution to the Honduran economy, larger, by itself, than the total growth of GDP experienced between 1992 and 1993.

The above flows (wage payments and purchases of intermediate inputs) result from an established export-oriented industrial base from which the Honduran economy should continue to benefit indefinitely. This base, however, has been largely constructed from the assembly and manufacture of apparel. There now are international trade policy developments which threaten the continued growth, and possibly the present level, of apparel exports. The North American Free Trade Arrangement grants Mexico a competitive advantage through removal of quota restrictions combined with declining import tariffs. This advantage is limited, however, to garments of "North American origin". The Uruguay Round of the GATT proposes to remove all apparel quota restrictions over a period of ten years. Thus to maintain its position in the apparel industry,

². Based on a Price Waterhouse Workforce Survey taken in March 1993, up from Lps. 671 per month estimated through an earlier Price Waterhouse survey conducted in February 1992, and equivalent to about \$114 per month at an average exchange rate of Lps.6.50 per \$1.00.

³. Banco Central de Honduras, "Actividad Económica de las Zonas Libres y Zonas de Procesamiento Industrial", Tegucigalpa, Agosto de 1993.

Honduran enterprises will need to become increasingly productive and to compete on a cost basis not cushioned by its current, effectively non-quota access to the U.S. market. The industry will also need to diversify into other labor-intensive products in order to grow. With reasonable efforts to improve productivity and to diversify, the current level of employment in the export assembly industries appears sustainable. To expand beyond the current base, however, will require a strong effort to compete with other world suppliers in terms of cost and quality, as well as moving into non-apparel products.

As long as the export assembly industry grows, a full appreciation of the economic contributions of non-traditional industrial export development must also include the benefits generated from investment expenditures on domestic goods and services. Since most equipment used in exporting factories is imported, domestic expenditures generated from the investment process are largely confined to site development and construction. These are not insignificant amounts, however, estimated at close to \$200 million to-date, and could well continue at a rate of at least \$20-30 million per year during the next several years. Including the multiplier effects generated from such expenditure, construction of industrial facilities and related infrastructure for export industries will continue to add 1 to 2 percent to the growth of Honduran GDP for as long as expansion in these industries continues. While such expansion continues, therefore, new industrial export activities developed substantially as the result of FIDE's activities under USAID's Export Development Services project will continue to represent on the order of 8 percent of Honduran GDP, a major contribution and a major achievement by any reckoning.

Exact attribution of these results to FIDE promotional and developmental activities is, of course, impossible. Any effort to represent that such an estimate can be precise is misleading, and is bound to be controversial if attempted. However, it is possible to document the magnitude of efforts expended on promotion, and to record the fact that support services have been provided to companies that subsequently establish facilities and become exporters, as FIDE has done through the scrupulous maintenance of activity logs and records throughout the years.

The evaluation team has examined FIDE's records, including detailed contact/activity logs going back to 1986, and has also reviewed current operational plans that indicate, for example, that to generate a planned 20 new investments per year, FIDE expects to make 2,000 new business contacts, and 300 face-to-face presentations that it hopes will lead to at least 66 inspection visits to Honduras by prospective new investors. The volume of effort expended on the generation of a new investment is substantial, and reflects a "hit-rate" that is entirely consistent with other-country experience in foreign investment promotion.

On the basis of its historical records and its actual historical hit rate, FIDE estimates that it has directly contributed to 99 new investments in the period between 1985 and 1993, leading to the creation of 34,558 new jobs. This includes 14 companies located outside of the free trade and export processing zones, operating in sectors other than apparel assembly (e.g., tobacco, wood products, metal manufacturing, mining), and 85 companies that are part of the aggregate investment and employment-creation story told above for apparel. Clearly, FIDE has made a decisive contribution to the overall success of Honduras' investment promotion efforts, and we are satisfied that an attribution rate of something like 70 percent -- a figure heard frequently from

industrial park operators and tenants interviewed -- correctly, if not "precisely", represents the importance of their work in this regard.

4.5 - What impact has the Project had on poverty alleviation? What conclusions can be drawn on the overall impact of the Project? What was the Project's impact on women as compared to men?

Employment created has been essentially focused on new entrants to the labor market, and increased labor force participation rates. The Price Waterhouse follow-up survey of ZIP employment conducted in 1993, indicated that 47.5 percent of new hires had previously been unemployed. For women, the percentage of the sample previously unemployed was 63 percent. Eight percent of the newly hired women had been in domestic service, another eight percent had worked at other ZIPs. The major reason cited for those entering the labor for the first time was to generate income. For those changing employment it was to seek better wages. For three-fifths of the women labor force entrants, income went from nothing to a 1993 average of 719 Lempiras monthly. For those previously employed average monthly income went from Lps. 500 to more than Lps. 700 monthly. Labor force participation rates, especially of women, have also been increasing rapidly in the EPZ areas, meaning that incomes have been increasing in these areas not only from increased remuneration of employed workers, but from an increase in the proportion of the overall population that is employed.⁴

These trends have been observed to continue in the areas where the project has been able to attract investments, with female labor force participation rates increasing from 44 to 50 percent between March 1992 and March 1993⁵. National employment figures indicate that participation of women in the workforce barely exceeds 30%. Within the export processing industries, female participation ranges around 70%. Average earnings of female employees increased during this period from Lps. 648 to Lps. 720 per month. This increase, over 11 percent in one year, compares favorably with only a 2 percent increase in average earnings by male employees, although these continue to earn a higher wage, on average, than women in the EPZs.

Incomes earned by EPZ workers contribute to the income of multiple-worker, low-income households, which compare very favorably to households where no EPZ worker is present, according to 1992 Price Waterhouse study, and its 1993 update. By that latter year, in fact, Price Waterhouse estimates a 50 percent (Lps. 1,532 vs. Lps. 1,008 per month) earnings advantage for households with a member employed at an EPZ, versus those with no such employment. The survey noted that for 53 percent of the women employed their salary was the single most important source of income for the household in which they lived.

Women, especially young, single and unskilled, have benefited particularly from increased opportunities for gainful employment. Through their contributions to total household income, these women are making the consumption benefits of the project widely available in the community for all members, male and female. The 1992 Price Waterhouse survey indicated

⁴ Price Waterhouse Workforce Surveys, previously cited.

⁵ Price Waterhouse Workforce Surveys, previously cited.

initial employment of women in the ZIPs at over 80%, but the 1993 survey indicated a participation rate of over 70 percent. Why the apparent decline in female participation in the labor force is unclear: the Price Waterhouse survey speculated that its 1993 sample was skewed by one company which had a very high participation rate for men. Another reason may be a shortage of young female labor resulting in employment opportunities for young men.

Of the women workers at EPZs in the survey, about 65 percent were single, but 42 percent had at least one child. Only 38 percent of women employees had a high school or higher level of education, and only 35 percent had received any type of technical training prior to employment at an EPZ. As indicated by the results of household surveys conducted at random in two of the communities providing workers for EPZs, physical indicators of improved quality-of-life are also clearly improving, despite the short period of time between observations.

Physical QOL Indicators in EPZ Communities			
Indicator	Community	1992 Survey	1993 Survey
Percent houses with toilets	Choloma	53	55
	Villanueva	14	27
Percent houses with refrigerators	Choloma	27	29
	Villanueva	21	27
Percent income spent on food	Choloma	60	61
	Villanueva	70	60

Source: Price Waterhouse surveys.

As shown above table, the impact of EPZ development on quality-of-life indicators is especially notable in Villanueva, the initially poorer of the two communities surveyed.

4.6 - Are the benefits of the Project sustainable? Will Project support activities continue to be carried out by FIDE?

As discussed in Section 4.4, Honduras' export assembly industry development to date has been highly concentrated on apparel. Despite increasing global competition in this industry in the intermediate term resulting from NAFTA and from changes in the GATT, Honduran apparel makers have demonstrated the ability to compete in terms of cost and quality and should be able to maintain the production base now in place so that the gains achieved to date may well be long-lived. Future growth, however, will probably require diversification in the range of products to be assembled. A new facility for assembly of automotive parts nearing completion west of San Pedro Sula is one indication that diversification is possible. Further expansion of assembly industries, and diversification of investment in Honduras to other export industries -- including tourism -- will probably require the continuation of FIDE's promotional activities. At minimum,

it can be fairly said that the continuation of FIDE's promotional activities would contribute to such further diversification and expansion, at relatively high efficiency and low cost due to the experience and know-how that has been accumulated in that institution.

In all likelihood, project-supported investment promotion activities will continue to be carried out by FIDE, with some changes in emphasis and adaptation to new circumstances, at least for the next several years. FIDE-controlled resources assure them of being able to continue effective promotional activities for this period, but increasing attention must be devoted by them to broadening their funding sources, including the expansion of fee-based services to the maximum possible extent.

Technical assistance acquired by such industries as apparel and furniture, investments made and markets developed to date are inherently sustainable without further assistance from FIDE; always assuming that basic macro-economic and political environments remain satisfactory and, further, that export markets, e.g. the U.S. remain vibrant. Examples of industries which may be expected to sustain their development are the furniture and apparel industries. These, especially apparel, have now developed the market connections and production skills which should permit them to undertake much of their own promotion in selected foreign markets, principally the U.S. What companies in these industries appear unable to afford is to undertake broad-based country and industrial promotion. Often a governmental role, the promotion abroad of a country, like Honduras, as a good place to visit and in which to do business is an important element in developing the climate for investment and trade. The Government of Honduras has not to date evidenced either the financial or organizational resources to carry out this role. Within the limit of its available resources, FIDE proposes to continue both general promotion and specific new opportunities promotion, e.g. assembly of electrical and automotive components, food processing, mining, chemicals and tourism. Given its resource limits, however, FIDE will have to be quite selective in determining targets for promotion.

4.7 - Is FIDE self-sustainable when income versus expenditures are analyzed? What will be the likely future of the organization from both the organizational and financial standpoint?

As of June 30, 1994, FIDE planning documents⁶ indicate that it controls approximately Lps.44.4 million (approx. \$5.2 million) in income-generating reserves, including Lps.12.2 million in trust funds under FIDE management. Combining projected earnings from the investment of these reserves with other income principally from the Central Bank of Honduras and FERD (Fondo Economico de Reestructuración de Deuda), FIDE projects revenues in excess of Lps.15 million during 1995 and 1996, dropping to Lps.12.7 million in 1997, with no support from A.I.D. projected for these years.

FIDE anticipates spending about Lps.6 million in 1995, growing to Lps.8 million by 1997, plus \$300 thousand to \$330 thousand per year in dollar expenditures. Not counting investments, FIDE has budgeted Lempira expenses of Lps.6.7 million in 1994, with Lempira spending running at about 75 percent of plan, and it budgeted \$694 thousand in dollar expenses, which are being

⁶. FIDE, "Plan Operativo y Presupuesto - Período 1994".

spent at only about 51 percent of plan, through June 30.

Translated to Lempiras, total expenditures are projected to increase from Lps.8.6 million in 1995 to Lps.10.8 million by 1997, meaning that, with no further support from A.I.D., FIDE anticipates that it will, with some reduction in spending, be able to generate an operating surplus and increase its reserves in each of these forecast years. Based on FIDE's own estimates, therefore, it can be concluded that the institution has, in fact, achieved financial self-sufficiency. This is an unusual accomplishment for organizations of this sort, and reflects very favorably on both FIDE and USAID program managers who worked to bring this about over a period of many years.

The most significant organizational change which is currently being planned to accommodate a slightly restricted dollar budget in coming years is the closing of the White Plains, New York office, which will generate savings of about \$300 thousand annually. The Taipei office may also have to be closed unless expanded Taiwanese funding can be arranged, though it appears that prospects look good at this time.

Despite having achieved a measure of self-sufficiency, in order to avoid having to reduce its current overseas promotional activities, or to be able to take on new activities, FIDE will require new sources of financing to be developed. USAID could be among such new sources in the future, albeit in the face of sharply reduced funding, this prospect is unlikely in the short run. FIDE is also examining other program prospects that would access other sources of financing, such as possible EC-funded activities to promote joint ventures, for example, but no decisions have yet been made in this regard.

4.8 - What were the key elements of FIDE's program which led to project achievements?

The talent and dedication through the years of FIDE's core staff was probably the single most important element leading to project achievements. Also, that the Project envisioned from the beginning involvement in both export development and "labor-intensive export industry" allowed FIDE to shift emphasis over time as appropriate.

Further, the members of FIDE's board of directors were committed to the modernization and growth of Honduras' society and economy. In pursuit of this goal they supported FIDE's development into an objective, professionally based organization, and not as an interest group pursuing a narrow agenda. FIDE management was left to manage the institution within the framework of its established objectives to promote the economic development of Honduras through increased trade and investment. We are aware of no instance in which any member of the Board sought undue influence over FIDE's activities in order to benefit a personal or business interest.

In addition, being in the right place doing the right thing at the right time was also helpful; Honduras' achievements are impressive, but not so different in nature and scope from what has been going on in the rest of the Caribbean Basin as to indicate the presence of some really unique and revolutionary program elements in this country. It should also be noted that

during the first four years of the Project, FIDE's ability to develop nontraditional exports was substantially impeded by inappropriate macroeconomic policies and regulatory constraints. Fortunately, FIDE's shift of emphasis to export assembly industry development coincided with the economic reform program begun by the GOH in 1990, an illustration of the importance of the external environment to the success of a project.

Though difficult to document or evaluate, it also appears that FIDE was given a high degree of autonomy by the USAID Mission in Honduras -- relative to similar programs elsewhere in Central America -- and this seems to have facilitated flexible, innovative responses when these were necessary. This does not mean that FIDE was not constrained on occasion by USAID regulations with respect to such matters as salary levels, procurement requirements and restrictions on assistance to selected product classes, but that FIDE was able to develop its own programmatic approaches to achievement of its overall objectives. USAID also demonstrated a remarkable degree of constancy and perseverance when it came to the FIDE program, including willingness to explore innovative means of maintaining the continuity of program funding, and these have contributed substantially to the project's achievements.

5. CONCLUSIONS

5.1 Performance

As described in Section 4, Findings, FIDE's performance clearly met and in many areas exceeded the goals and objectives set out in the original Export Development and Services Project as well as the targets set in the 1992 Project Amendment. It has made a solid contribution to the economic growth of Honduras and, equally if not more importantly, is poised to continue this contribution indefinitely whether or not it receives additional funding from USAID. Simply stated the FIDE sub-component of the EDS Project has been a "success".

5.2 Project Design

FIDE's success in achieving its objectives in the promotion of non-traditional exports and foreign investment and in becoming a well regarded, financially self-sufficient professional organization, argues for effectiveness of the Project's design, at least of the FIDE sub-component. FIDE benefited from the Project's division into discrete components which effectively insulated FIDE from difficulties and policy changes affecting other Project activities, such as a decision to terminate concessionary export financing or problems in the public sector and agricultural components. FIDE also benefited from the fact that the Project design was not tightly structured and that it permitted considerable flexibility in the implementation. Another feature, probably quite helpful in developing FIDE's sense of self-sufficiency, is that its activities were never part of a long term institutional contract. A single, long term advisor was present for much, but not all of the time, and FIDE has had no one in this position for the past two years.

On balance, however, much of the success which FIDE has enjoyed does not derive from the Project design but from the ability of its people to adapt to circumstances and to push consistently and continuously to achieve the institution's goals. Project performance is far more dependent on the

people involved than on the design.

Project performance is also highly dependent on the environment in which the project operates. FIDE's success in attracting foreign investors and in persuading local industrialists to put up industrial parks was strongly enhanced by the economic reforms undertaken by the GOH in the 1990-92 period. Conditions in the U.S. apparel market, especially quota politics, also played an important role. Once investors passed through the hurdle of Honduras' relatively poor image abroad, they became aware that FIDE was offering a "good product" in terms of market access, costs and stability, none of which related to project design. An opposite case where the design was good but the project failed is that of Prominex, an investment promotion project for which the design benefited from previous USAID experience in Honduras, the Dominican Republic and Costa Rica. It started up in Haiti in 1990 and never really got off the ground before being shut down.

5.3 Program Shift.

In the judgment of the evaluators, the decision reached in 1988 that FIDE shift emphasis from export development based on indigenous resources to one based on the "export" of labor only was a sound one. As mentioned above, export development that depends on locally-based industry to transform local raw materials is difficult and lengthy, especially in a culture accustomed to protected markets, high prices and low volume. FIDE learned early on that virtually none of the then existing Honduran industries could compete in global markets in terms of price, quality, product design, volume or delivery.

Honduras' lack of employment opportunities and foreign exchange was immediate, requiring faster action. The four-year build-up of apparel assembly alone (counting only value added) which has created Honduras' third largest export category, behind only bananas and coffee, and ahead of cultivated shrimp and melons, is largely a tribute to FIDE's change of emphasis. Had FIDE retained its concentration on converting national industry into globally competitive exporters, it would not have come close to its actual, 1990-94 achievements in creating jobs and generating foreign exchange earnings, which as pointed out in Section 4.4, have resulted in measurable and significant growth in Honduras' gross domestic product. The next five years, however, will not be like the last, as FIDE has acknowledged through its shifting of emphasis again to newer areas, such as mining, tourism and food processing, and its deemphasis of apparel.

5.3 Project Approach

Within the context of Honduras, particularly during the period 1989 to the present, the approach encompassed in the FIDE sub-component of the EDS Project has obviously proven viable. In "Findings" we have discussed FIDE's investment promotion methodology and its accommodation to the market and other circumstances in which it found itself. The question as to whether this approach is suitable for wider application has no easy answer.

Questions of approach and/or design are less important to the success of a project than the environment in which it operates - economic, political and social, and the quality of the people involved. The rapid growth of off-shore assembly industries in the Caribbean Basin (and Mexico

beforehand) were not the result so much of the availability of "cheap" labor, as that of proximity to the United States. Other "cheap labor" areas like Cameroon, the Cape Verde Islands, or even Bolivia, will not attain the same return on effort expended because they are far more distant from the U.S. marketplace. The "approach" may be sound, but a country's factor endowment, geographic location and proximity to markets as well as its legal, regulatory and institutional environment play a major role in the successful application of the approach selected.

6. RECOMMENDATIONS

6.1 FIDE should continue to the extent feasible to serve as an instrument in support of the modernization of Honduran society and economy. FIDE has played this role through its economic policy analyses in support of change and its efforts to engender support for the process among government and business leaders. One could argue that the electoral success of the Reina administration owes much to the desire of a substantial proportion of the Honduran population to return to a time before "globalization", currency devaluation, urban crowding, inflation and institutional change. The economic reforms undertaken in recent years and the fact that the benefits of economic growth have been unevenly distributed contribute to public discontent. But there can be no return to earlier conditions which means that there remains a strong need for better public understanding of the limitations and realities confronting Honduras; an understanding that can be translated into better governance and more effective institutions.

FIDE is one of the few, if not only, institutions in Honduras with some, albeit limited, capacity to undertake this role. Appropriate tasks could include: developing the intellectual basis and contributing to subsequent public support of privatization of public services; pushing for better legislation for banking, insurance and capital markets; promoting private sector response to problems of education, health and the environment; and promoting investment in infrastructure. There is no shortage of needs to be addressed, but there is a problem of resource limitations. FIDE's key staff comprises five individuals. A major role in policy questions and advocacy, even if limited to the direct interests of the private sector, will require more people and more money. FIDE's challenge is to secure the needed additional funding from whatever source available. Absent additional funding, FIDE would appear limited to a role of investment and export promotion which should be considered its first priority.

6.2 FIDE should retain, with whatever financial resources it can generate, its capacity for broad national promotion. Apart from specific industries or off-shore assembly opportunities, there is an important need for an institution which can promote the country as a whole in the international arena. Neither the government nor private industry appears prepared or able to take on this task. In the case of government, so far the record regarding attempts to undertake promotion is one of inadequate resources and unresolved jurisdictional problems. Private industry has shown neither much interest nor much financial support for promotional activities except, and to a limited degree, those targeted to the interest of the company or of a particular industry sector. In the course of promoting Honduras abroad, FIDE could focus on tourism, mining and other natural resource based export

development such as food processing, and biotechnology. The expectation is that with a changed Honduran macroeconomic environment, including the move to economic integration with its two northern neighbors, and a small, but growing base of nontraditional export industries, export development efforts will prove more successful than they were in the mid-1980's.

7. LESSONS LEARNED.

What are the lessons learned from FIDE's investment program promotion program?

7.1 First, investment promotion campaigns are captive to the environment in which they are expected to operate. In 1984, when FIDE began operations, neither the geopolitical situation in Central America nor the macroeconomic climate in Honduras favored foreign investment. This was compounded by a lack of confidence on the part of Honduran industrialists and of industrial infrastructure. The environment had improved by 1989 - helped by successful off-shore assembly development in Costa Rica and the Dominican Republic - when FIDE launched its investment promotion campaign. The campaign took off, however, in 1991 with the macroeconomic reforms initiated by government and the construction of industrial parks through the initiative of private Honduran investors. With the favorable environment, FIDE's well managed and effective investment promotion program was very successful, proving that a successful program need not be terribly expensive nor does it need a large supporting institution. It does need a product, and in the case of Honduras this product has been readily available, low cost and reasonably productive labor, ensconced in an environment of social and political stability.

7.2 A second lesson is that true export development in the sense of transformation of national resources into marketable export products is expensive and long term. Thus, relatively rapid job and foreign exchange generation in the short term can only be done by a mechanism such as off-shore assembly or, where conditions warrant, tourism. As indicated in Findings Section 4.4, the export assembly industry can be credited with a current contribution of between 6 and 8% of GDP, a contribution reached in less than five years.

7.3 A third lesson is that once industrial or tourist development begins to take off, the country's infrastructure, both physical and human, must grow to meet the increasing demand. Failing in this, the lack of infrastructure serves to limit economic development at a certain plateau, usually at a level far below what the country needs to meet its social needs. At the moment, in Honduras, this is illustrated by inadequate electrical power, sea and airport facilities, potable water, sanitation facilities and housing.

7.4 A fourth lesson, is that from an operational point of view, FIDE's experience points to the value of a physical presence in targeted export markets and to the wisdom of adopting a sequential concentration on a small number of geographical and product markets at any given time. Easy access to potential investors is essential to the promotion process, which, according to FIDE's experience, as well as that of other similar institutions in the region, requires a relatively massive number of initial contacts to generate qualified investor visits and, ultimately, the desired

investments. Also, a concentration on a small number of specific industries for promotion allows the promoters to focus on areas of competitive advantage, and makes it possible for industry knowledge and contacts gained by the promoters to be more easily focused/leveraged.

An outstanding asset developed by FIDE was its ability to positively influence the Honduran investment climate at the macro level, as well as to problem-solve for individual companies at the micro level. Technical competence and the integrity of program managers were a key to maintaining such influence despite political changes in government administration and in the boards of large private sector institutions.

7.5 A fifth lesson is that FIDE's experience also shows, albeit at a rather low level so far, that it is possible, and highly desirable, to charge investors a fee for services provided to them. Such fees may be charged directly to investors, in return for information provided or services rendered, or indirectly through commission arrangements such as FIDE has successfully negotiated with industrial park operators.

The level of income generated through fees for services and commissions, while useful in assuring the seriousness of intent on the part of FIDE's clients, fell far short of the requirements for financial self-sufficiency. The lesson learned is that general trade and investment promotion institutions can not be sustained through user fees, but must look to other sources for the bulk of the funds needed.

7.6 A final but very important lesson is that a positive permanent role can be maintained for a promotional organization such as FIDE even while deliberately divesting more mature promotional activities to other private sector institutions as these become successful. FIDE is at present, for example, handing off a number of its activities (attendance at specialized trade fairs, maintenance of a quota-management export data system) to the Asociación de Maquiladores, while it searches out a new role for itself, focused on the promotion of less-developed industrial sectors and on helping to maintain a favorable overall investment climate in Honduras. A constantly evolving catalytic role is needed from promotional institutions, and this can form the basis for a stable but flexible institution that does not engage in empire building for its own sake, but merits, because of its pioneering nature, some measure of continuing support from government or broad-based private sector organizations.

8. APPENDICES

8.1 Scope of Work.

8.2 EOPS Status

8.3 List of Persons Contacted.

8.4 Bibliography.

8.5 Table of FIDE Employment Generation.

TERMS OF REFERENCE
Export Development and Services (EDS) Project -- FIDE Component
(522-0207)

BACKGROUND

The Export Development and Services (EDS) Project Agreement was signed on August 31, 1984. The purpose of the EDS project is to increase nontraditional exports. The goal of the project is to promote economic growth and employment through the development of nontraditional exports.

As originally designed, the project had three major components that dealt with: (1) the policy framework surrounding export promotion activities, (2) private sector industrial and agricultural sector activities related to exports, and (3) the development of financial services germane to export activities. The Ministry of Economy was the counterpart for policy activities and the Central Bank for financial services activities. Activities related to export and investment promotion are implemented by the Foundation for Investment and Development of Exports (FIDE), which promotes and develops private sector industrial exports, and the Federation of Honduran Agricultural Export Producers (FPX), which promotes and develops agricultural related exports. This evaluation is concerned only with the efforts of FIDE to expand nontraditional, manufactured exports.

The End of Project Status (EOPS) of the project for the FIDE component established in the original 1984 Project Paper were: 1) favorable policy environment; 2) export institutional capability established; 3) \$53 million in value added from project assisted exports by 1990¹; and 4) adequate financial services available to exporters.

In Amendment No. 1 to the Project Paper, which was to cover the period from September 1992 to September 1994, the EOPS related to FIDE were as follows: an additional \$16 million in foreign investment; an additional \$68 million per year in foreign exchange earnings from EPZ/FTZs; and an additional 10,000 jobs, of which approximately 85% were to be held by women.

The original OUTPUT for the project related to FIDE was: \$43 million in export sales from labor intensive industries.

In Amendment No. 1 to the Project Paper, four FIDE-related outputs were listed: number of companies assisted by FIDE; number of companies assisted by FIDE that are exporting; employment generated by EPZ and non-EPZ firms; and the number and value of new

¹This EOPS does not differentiate between FIDE and FPX-generated exports.

domestic and foreign investment by firms supported by the project. Specific targets were not provided for all items.

Because there are inconsistencies in the actual targets listed in the project documentation, the evaluators are asked not to spend time attempting to reconcile the differences, but to look instead at the impact of FIDE's program on the various indicators discussed above.

The Foundation for Investment and Development of Exports (FIDE)

FIDE is a private, non-profit organization that executes the \$8.0 million manufacturing component of the EDS project. Created in 1984 by Honduran businesspersons committed to supporting industrial development, FIDE's objective is to stimulate economic and social development by promoting domestic and foreign investment and increasing Honduran nontraditional exports.

FIDE has advocated the GOH adoption of economic policies favorable to exports and has helped create a business environment which will attract international producers and motivate Honduran companies to export. FIDE serves as the link between Honduran exporters and a source of technical assistance for production, processing and marketing. FIDE accomplishes its goals by: promoting the free and open markets needed to expand exports and attract foreign investment; increasing the capacity of the Honduran private sector to export locally manufactured, nontraditional products; and by helping to identify and market products specifically designed and produced for export.

USAID Support to FIDE

USAID LOP funding for FIDE totals \$8.0 million. In addition to funding from USAID, FIDE has received GOH counterpart funding totalling L69.5 million to date. FIDE has retained a significant portion of this amount, and funds generated from fees-for-service, in an endowment account so as to ensure its financial self-sufficiency beyond August, 1994, when the EDS project ends.

A midterm evaluation of the EDS Project conducted in March 1988 recommended that FIDE step up its activities in investment promotion, given the potential benefits that such an effort can yield and the improved investment climate in Honduras. The evaluators noted that this change in emphasis would imply a need for FIDE to take on a direct marketing function. Based on this recommendation, FIDE refocused its programs on investment promotion, opening two offices in the U.S., and increasing its local capacity to promote Honduras as an offshore investment site. Since 1988, FIDE has built a credible promotional organization and has become the principal catalyst for attracting investment to Honduras as a means of increasing nontraditional manufactured exports. Its programs have had a major impact on the Honduran economy resulting in the creation of new industries and employment in Honduras. To date, FIDE has provided direct assistance to 216 companies, of which 117 have exported. Some 100 of these represent new investments with a value of \$196 million. FIDE's program

has also generated an estimated 34,600 new, direct jobs, of which about 70% are held by women. FIDE also pioneered the creation of export processing zones, of which there are now seven, six of which are fully operational. FIDE also provided assistance to three privately-owned free trade zones (FTZs). A total of 50 private investors have established plants in six EPZs and 24 in three FTZs.

The EDS Project was amended on September 9, 1992 for an additional two years to continue activities of FIDE aimed at increasing investment and production in export industries. The new PACD is August 29, 1994. However, in view of Section 599 of the FY 1993 Foreign Operations Appropriations Act and initial guidance from USAID/W, as of October 1992 all funding for export processing zone development and support to FIDE's U.S.-based offices was curtailed. Following final USAID/W guidance on Section 547 (previously 599) of the FY 1994 Foreign Operations Appropriations Act, all support to FIDE's investment promotion and export development activities was terminated as of December 31, 1993.

In light of the above, FIDE's program to promote manufacturing investment and employment was again reoriented in January 1994, to take into account attendant environmental problems and labor rights issues. FIDE's work program for the remaining eight months of the project (January 1, 1994 - August 29, 1994), was premised on the need to ensure that the Honduran government and private sector understand, and are able to comply with, likely requirements to a free trade agreement with the U.S. FIDE has also been tasked with improving Honduras' legal and policy framework. For this task, FIDE has developed a "think tank" comprised of technical experts in the areas of wood products, tourism, labor relations, public services, industrial reconversion and housing.

OBJECTIVE

Evaluation is an integral part of USAID's program management and budgeting process. The primary purpose of evaluation activities is to inform host country development managers and USAID staff about the performance and progress of joint projects and programs, employing information systems and analytical techniques to support decision making and the effectiveness of development assistance. Thus, evaluation of projects prior to the Project Activity Completion Date (PACD) is a standard requirement of USAID. The EDS project comes to a close on August 29, 1994.

The purpose of this final evaluation is to draw conclusions about the overall success (results) of the FIDE component of the EDS Project during the last roughly six years of the project (1988 - 1994). The Contractor will determine the relevance, effectiveness, efficiency, impact and sustainability of the FIDE component of the project, as well as whether it accomplished its purpose. The Contractor will also identify lessons learned that may be applied to other future USAID projects.

A secondary purpose of the evaluation will be to evaluate workers' rights, environmental protection, and policy and legal activities undertaken by FIDE during the last eight months of

the project and to assist USAID/Honduras in the development of new, follow-on activities in these areas.

STATEMENT OF WORK

The Contractor will field a team of four specialists as described below. The Team will be directed by the Chief of Party (COP). This person will be responsible for all activities in Honduras and will: assign duties to other team members; develop and implement work plans and schedules; ensure that gender considerations are properly analyzed and discussed in the report; and will act as team spokesperson with USAID and local Honduran contacts. The COP will be responsible for the preparation and submission of the draft and final reports to USAID. The COP will also be responsible for completing the indicated sections of the Evaluation Summary Form (Attachment "B").

The Contractor will address the questions that are enumerated below. The evaluation is to provide empirical findings (evidence) to answer these questions, conclusions (interpretations and judgements) that are based on the findings, and recommendations based on the assessment of the results of the evaluation exercise. The report is to provide lessons learned that may emerge from the analysis.

Investment Promotion/Export Development:

1. Did the project achieve its stated purpose, objectives and outputs (see Attachment "D")? These questions should be answered both in quantitative and qualitative terms. Where the purpose, objectives and/or outputs were not achieved, the evaluators should provide reasons as to why not.
2. How did the FIDE component of the EDS project contribute to the Mission's FY 1994-95 Action Plan objectives and, more specifically, to Strategic Objective 2: Increased Private Investment and Trade? Were program and Action Plan indicators achieved?
3. What economic benefits accrued to the economy as a whole as a result of the activities carried out under the project? Did the net economic benefits justify the allocation of resources to this project?
4. What are the direct contributions of the project to the Honduran economy? What measurable impact did the project have related to new investment, export production, job creation, improvements to the overall investment climate, generation of foreign exchange, etc.
5. What impact has the project had on poverty alleviation? What conclusions can be drawn on the overall impact of the project? What was the projects' impact on women as compared to men?

6. Are the benefits of the project sustainable? Will project-supported activities continue to be carried out by FIDE?
7. Is FIDE self-sufficient when income versus expenses are analyzed? What will be the likely future of the organization? Question should be answered from an organizational and financial standpoint.
8. What are the lessons learned from FIDE's investment promotion program?
9. What were the key elements of FIDE's program which led to project achievements?

Eight-Month Program:

1. How significant has FIDE's role been in addressing issues related to workers' rights, environmental protection?
2. As a result of FIDE's initial efforts in workers' rights and environmental protection, is Honduras closer to being eligible for accession to a free-trade agreement with the U.S.?
3. What issues have been addressed by FIDE's "think tank" related to improving Honduras' legal and policy framework?
4. How successful have FIDE's efforts in this area been and what has been the economic impact of the "think tank?"

Future Direction

In view of Section 599/547 legislation and USAID/W guidance, support to FIDE's investment promotion and export development activities was terminated as of December 31, 1993. As noted earlier, FIDE's USAID-funded program was reoriented in January, 1994, to take into account environmental problems and labor rights issues.

1. Do the evaluation findings provide sound evidence of the value and relevance of efforts in the areas of labor rights protection for both men and women, environmental protection and improvement of Honduras' policy and legal framework to warrant continued USAID support?
2. What changes in the design of the eight-month program would increase the effectiveness, efficiency, impact and sustainability of a new USAID/Honduras effort?
3. What are the key areas that remain as constraints to a U.S.-Honduras free trade agreement and what can FIDE do about them? Will focussing on labor and environmental issues be sufficient conditions for free-trade agreement eligibility? If

not, what other areas should FIDE and/or other public and private institutions be concerned with? What might the targets be for future USAID-supported effort in these areas?

4. What are the pros and cons of using FIDE to move Honduras toward accession to a free trade agreement with the U.S.?

Lessons Learned

What changes in the design of the project would have increased the effectiveness, efficiency, impact and sustainability of the project? To what degree were the indicators developed for the project suitable measures of purpose and goal achievement?

Was the strategic shift made in the project approach in 1988 from purely export promotion to investment promotion a sound decision in terms of meeting the project's goal and purpose?

Is the project approach taken by the Mission viable and suitable for wider use (answer for investment promotion and export development activities)?

METHODS AND PROCEDURES

The primary source of information to be used by the Evaluation Team will be FIDE's data base, quarterly and semiannual reports, and planning and implementation documents, including evaluation and audit reports. The evaluation team will receive from USAID material such as the Project Paper, Project Agreement (and pertinent annexes), semiannual reports, etc. The Team will also conduct site visits to interview FIDE staff, Board of Directors, technical assistance advisors, clients, USAID/Honduras and relevant public and private sector institutions.

Evaluation Team Composition

The evaluation team will consist of four experts (at least one with demonstrated experience in gender-related matters) in designing and evaluating private sector development projects, as follows:

1. Management Specialist: Masters degree in business administration or related field with minimum five years of professional work experience in the area of project design and/or evaluation of trade and investment projects. The contractor must have solid knowledge of standard project evaluation methodologies and excellent report writing skills. This person will also serve as COP for the evaluation team.
2. Economist/Finance Expert: Relevant M.A. (e.g, Economics or MBA) with ten years experience or PH.D. with 5 years experience in international trade, economic development, and economic analysis.

3. Labor Specialist: Masters degree in law or related field with at least five years practical work experience in labor issues affecting the manufacturing sector (maquila). The contractor must have knowledge of current labor issues in developing countries, particularly as they relate to U.S. requirements for possible future accession to NAFTA or similar free trade agreement with the U.S.
4. Environmental Specialist: Masters degree in Environmental Sciences or related field with at least five years of work experience in environmental issues/protection in developing countries, particularly as they relate to U.S. requirements for possible future accession to NAFTA or similar free trade agreement with the U.S.

DELIVERABLES AND REPORTS

Within 3 working days of arrival in country, the COP will present a work plan to USAID for its approval showing estimated travel schedule and dates of presentation of reports. Two separate reports will be required of the contractor: a final evaluation report of the FIDE Component of the EDS Project covering the roughly six-year period from 1988 to 1994; and a separate report on FIDE's eight-month program and future direction. The Contractor's final report on the six-year effort in investment promotion/export development shall contain the following:

- Executive Summary: Containing development objectives of the project or program to be evaluated, purpose of the evaluation, study method, findings, conclusions, recommendations, lessons learned, and comments on development impact. The Executive Summary must be a self-contained document and should not exceed five (5) pages
- Project Identification Data Sheet (see attachment C);
- Table of Contents
- Body of the report (approximately 20-25 pages) must include the purpose of the evaluation; the economic, political, and social context of the project or program; team composition, field of expertise and role it played in the evaluation, and study methods (one page maximum); findings of the study concerning the evaluation questions (any deviation from the scope of work must be explained); conclusions; recommendations, in a separate section of the report; lessons learned and comments on the development impact; also in a separate section, the contractor will include a brief description of conclusions and recommendations from previous evaluation(s), and a brief discussion of how they were used in the implementation of the project; and,
- Appendixes: Should contain the scope of work, the most current listing of End of Project Status (EOPS), program indicators, outputs, and lists of individuals and agencies contacted and documents consulted.

The separate report on FIDE's eight-month program and future direction should not exceed ten (10) pages and shall contain an executive summary of not more than 3 pages.

The Evaluation Team will submit draft evaluation reports in the Mission before the Team's departure. The Project Officer will provide a composite USAID/FIDE response on the draft reports to the COP within ten (10) working days. The Evaluation Team will submit the final evaluation reports (a minimum of ten (10) copies in English) to the Project Officer no later than three (3) weeks after the Mission furnishes the contractor with comments.

Additionally, the Contractor shall submit: 1) a draft of sections "H" and "J" of the Project Evaluation Summary on USAID Form 1330-5 for the project (see attachment "B"); and 2) input to the Project Assistance Completion Report in accordance with the attached outline and guidance (see attachment "A").

Notes to Evaluation Team:

- Lessons learned should describe the causal relationship factors that proved critical to project success or failure, including necessary political, policy, economic, social and bureaucratic preconditions within the host country and USAID. These should also include a discussion of the techniques or approaches which proved most effective or had to be changed, and why. Lessons relating to replicability and sustainability must also be discussed.
- Discussions of development impact must be included in a separate section of the body of the report, and should clearly present the development benefits resulting from the project.

RELATIONSHIPS AND RESPONSIBILITIES

The Contractor will work under the technical direction of Vicente Díaz, Office of Economic and Program Analysis at USAID in Tegucigalpa.

PERFORMANCE PERIOD

Field work will begin o/a 7/5/94 and end o/a 8/5/94. Final report shall be submitted o/a 9/15/94.

LEVEL OF EFFORT

Four persons are needed. For field work, two persons are needed for 24 workdays each (management specialist and economist), and two for 6 work days each (labor and environmental specialist). In addition, 6 days are required for office time in the U.S. for the COP and 3 days each for each of the other three consultants. Total LOE is 75 person days.

SPECIAL PROVISIONS

- A. Duty Post: San Pedro Sula (12 days) and Tegucigalpa (12 days), Honduras.
- B. Language Requirements: English and Spanish fluency (S-3, R-3).
- C. Classified information: Access is not required.
- D. Logistic Support: Contractor responsible for all logistical support/arrangement required to perform this work.
- F. Work Week: A six day work week is authorized with no premium pay.

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FIDE FINAL EVALUATION

8.2 End of Project Status.

Export Development and Services Project (522-0207)

	<u>Project Output Targets</u>	<u>Accomplishments</u>
Goal: Promote economic growth & employment	Original by 1990	
Purpose: Increase nontraditional exports	7,000 jobs	6,438 jobs
	\$43 million in sales	\$80.7 million in sales
	Amended 1990- 1993	
	33 companies begin exporting	71 companies began exporting
	5,150 jobs	28,120 jobs
	42 new investments	73 new investments
	\$17.850 million in new investment.	\$149.9 million in new investment

25

FIDE - FINAL EVALUATION

8.3 List of Persons Contacted

USAID Honduras

Mr. Donald Harrison
Mr. Vicente Díaz
Ms. Eléna Brineman
Ms. Margaret Harritt
Ms. Lisa Valenzuela
Mr. Victor Paz
Mr. Philip Hubbard
Ms. Betty Cárcamo

Mr. Emilio Murillo
Mr. Luis Felipe Molina
Mr. Luis F. Rivera Ribas
Ms. Carla Hidalgo
Mr. Rafael Calderon Carranza
Ms. Gabriela Nuñez de Reyes
Mr. Ian Walker
Mr. Juan De Dios Herrera
Mr. Luis B. Gomez
Mr. Angel Andres Casco G.
Ms. Vilma Sierra de Fonseca
Mr. J. Alejandro Hernandez
Mr. Hilario Hooker
Ms. Maria de Gray
Mr. John Coleman

FIDE

Mr. Norman García
Mr. Antonio Young
Mr. Marco Vinicio Matute
Mr. Luis Dávila
Ms. Brenie Clamer
Mr. Toribio Aguilera

Parque Industrial San Miguel
Wrangler de Honduras, S.A.
Chamber of Commerce & Industry of Cortes
Parque Industrial Continental
Bioconsult
UDAPE
UDAPE
Asociacion Hondurena de Maquiladoras
ELCOSA
ZIP Bufalo
COHEP
INCAE
Nathan Associates, Small Business II Project
Honduran American Chamber of Commerce
Honduran American Chamber of Commerce

FINAL EVALUATION - FIDE

8.4 List of Documents Consulted.

1. Project Document - Export Development and Services Project (522-0207).
2. Project Implementation Letter, No. 151, EDS Project, Support for FIDE in three areas, March 8, 1994.
3. Project Implementation Letter, No. 8. PAIP Project, Policy Analysis Unit, May 4, 1993.
4. FIDE Plan Operativo y Presupuesto Período 1994.
5. FIDE Memorial Annual, for years 1985, 1986, 1987, 1988, 1989, 1990, 1991, 1992 and 1993.
6. FIDE Audit Report. KMPG Peat, Marwick and Mitchell, December 31, 1993.
7. FIDE Project, Environmental Component Update, Margaret Harritt, July 17, 1994.
8. A Nine Month Work Program for FIDE. ESA Consultores, January 17, 1994.
9. Letter to Norman García from Dr. Carlos A. Medina, Secretary of State in the Office of the Environment.
10. Baseline Study of Population Affected by Export Processing Zones, Price Waterhouse, October 1992.
11. An Update of the Baseline Study of Population Affected by Export Processing Zones, Price Waterhouse, May 1993.
12. Actividad Económica de las Zonas Libres de Procesamiento Industrial, Banco Central de Honduras, August 1993.

8.5 Employment Table

Cumulative Job Creation FIDE-Assisted Firms

