

Implementing policy reform: Results and reflections on the Honduras PEP experience



HONDURAS POLICY ENHANCEMENT AND PRODUCTIVITY PROJECT

Final Report

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Executive Summary

Chemonics International Inc. is pleased to submit this final report on the Policy Enhancement and Productivity (PEP) Project, financed through USAID/Honduras. This four year, \$10.8 million dollar project sought to help Honduras reduce poverty through increased economic growth. Its primary objective was to contribute to the recovery and growth of Honduras' economy by promoting economic policies and actions that increase productivity and reduce poverty.

During its initial phase, the project received an amendment, amplifying its scope and resources to support Hurricane Mitch economic reactivation efforts. Operating within the delicate context of a post-Hurricane Mitch environment, the PEP Project was successful in producing important results.

Charged with helping to improve the policy environment, the project worked with key public and private sector counterpart institutions to produce quality policy assessments, to help formulate policy options, and to assist in the promulgation of laws, decrees, and regulations. Promoting business development and competitiveness at the secondary city level was a critical component of the PEP Project.

After four years of implementation, the project achieved notable successes.

- PEP's policy component helped generate constructive policy dialogue during the Government of Honduras transition period. Additionally, PEP support proved instrumental in helping Honduras reach the decision point of the Heavily Indebted Poor Countries initiative; installing a revised methodology for a new National Accounts System at the Central Bank of Honduras; installing an early warning system for exchange rate and financial crises management at the Central Bank; training future policy makers through the Annual Summer Economics Course for young professionals; supporting the promulgation of the Administrative Simplification Law; and providing critical information, tools, and trade capacity building support for the *Secretaria de Industria y Comercio (SIC)* in preparation for the Central American Free Trade Agreement (CAFTA) negotiations. The project also played an important role in facilitating the transition to a new government administration. Technical analysis carried out by the PEP project served as the basis for defining short and medium term policy proposals and recommended actions that the new government administration would have to take into consideration. These recommendations were distributed to the advisory teams of the presidential candidates.
- PEP's business development component supported transactions in sales and investment totaling Lps. 96.46 million; PEP's efforts for "reviving" the *Zona Viva* in La Ceiba helped facilitate a \$2 million investment in a beach hotel project; and market linkages in the dairy sector and decorative accessory sector were established.

To maximize the use of limited resources after the conclusion of the Hurricane Mitch reactivation period (in December 2001), the project was re-focused to better position it to achieve important results. Its scope was refined, to target fewer areas in policy and business development where immediate impacts could be made.

There are many testimonies about the positive difference that PEP has made within the public and private sectors of Honduras. There are also many important lessons learned that can strengthen policy projects. For example, having an explicit and agreed upon policy agenda and objectives is critical. A broad focus on different policy areas is not conducive to lasting results. Policy projects must focus on implementation – this is the critical point in the policy reform process. Without it, the ratification of the policy is meaningless. We learned that policy projects work best when integrated with the microeconomic environment and at the firm level. The success of our business development component demonstrates that there is a demand in Honduras for business development services through a client co-payment mechanism.

Reflecting on these lessons and implementing them in future programs will help to continue making a positive development impact in Honduras and other countries.

The Project

Introduction

The Policy Enhancement and Productivity Project (PEP) was a USAID/Honduras initiative carried out by Chemonics International Inc. as a prime contractor, in association with Management Systems International (MSI), J.E. Austin & Associates Inc. (JAA), the International Management and Communications Corporation (IMCC) and the Foundation for Investment and Development of Exports (FIDE). The objective of the PEP project was to help Honduras reduce poverty through increased economic growth. PEP sought to contribute to the recovery and growth of Honduras' economy by promoting economic policies and actions that increase productivity and reduce poverty.

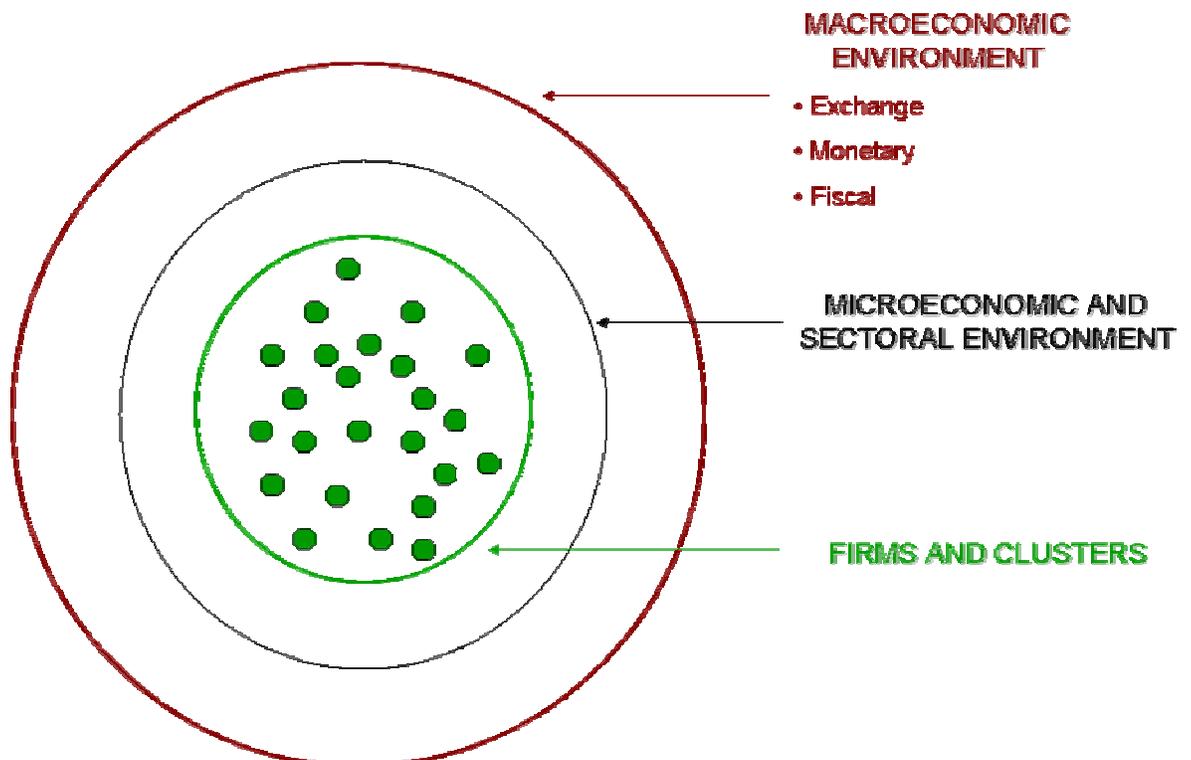
The PEP contract was signed in October 1999 for an initial four-year period, with priced options to cover a two-year period. As indicated in Annex A, the total contract period was from October 26, 1999 to October 25, 2003. The project operated within the context of USAID/Honduras' Strategic Objective One (SO1): Expanded and Equitable Access to Productive Resources and Markets, specifically Intermediate Results (IRs) 1.1: Improved Policy Environment Conducive to Poverty Reduction through Economic Growth, and IR 1.2: Improved Market Access and Competitiveness by the Poor.



In March 2000, USAID amended the PEP contract to include supplemental funds to carry out economic reactivation activities under its Special Objective: *Critical Hurricane Reconstruction Needs Met*, specifically IR 1.5: Policies in Place to Promote Economic Reactivation. This assistance, provided through the Reactivation of the Economy through Agricultural Credit and Technology (REACT) activity, had to be designed, delivered and concluded by December 31, 2001, which necessitated an expansion in the scope and scale of PEP. [See [REACT Final Report](#).]

Beginning with the 2002 Annual Work Plan and based on the recommendations from the assessment conducted in November 2001, the project streamlined its activities into two components: policy and “business development”. The policy component, Economic and Financial Policy Support, sought improved and consolidated economic policies to foster open markets, entrepreneurship, and competition; the business component, Business Development Services (BDS), aimed to improve the competitiveness of firms in selected secondary cities. The Mission’s SO1 Team and Chemonics worked closely together in the restructuring of the project and its reorientation.

For the policy component, USAID and PEP agreed on a policy agenda with specific policy support objectives and the flexibility to respond to emerging policy initiatives; for the BDS component, USAID and PEP agreed to focus efforts on assisting firms in two “economic corridors” of the country: the *Litoral Atlántico* and the *Corredor del Sur*.

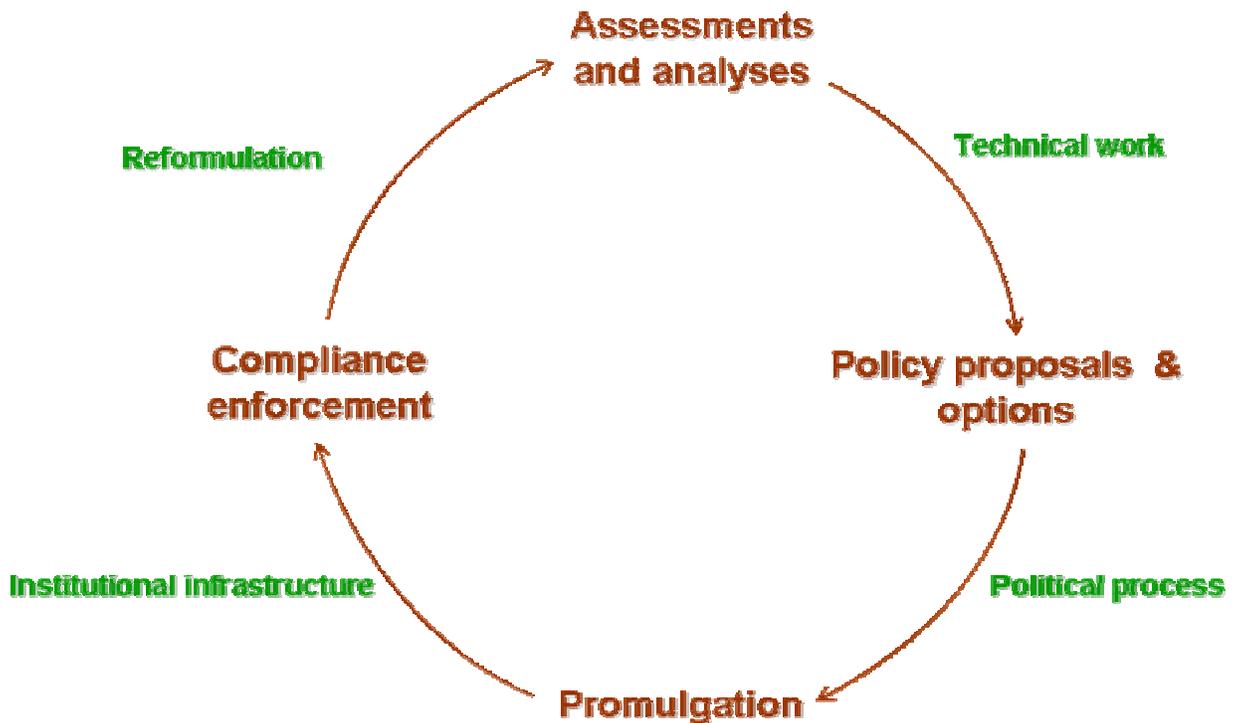


Beginning with the Annual Work Plan for 2002, this restructuring of the project capitalized on the synergies and relationships among the macroeconomic environment, the microeconomic and sectoral environment in which firms operate, and the promotion of competitive businesses and clusters in the two economic corridors. Based on the agreed-upon policy agenda and targets of opportunity, PEP activities targeted the three layers shown in the diagram above. [See: [PEP Presentation 16-Jul-02.ppt](#)]

The results summarized in the second section of this report validate the soundness of the restructured design carried out by the Mission and Chemonics. The reflections presented in the third section summarize the lessons learned, provide an interim action plan of key activities for Mission follow up, and specify requirements for further implementation of this “second generation” policy project design for Honduras.

The policy component

The policy change framework. Achieving policy change is an iterative process requiring a successful blend of political will and well-targeted assistance.



Technical assessments and analyses led to the formulation of policy proposals and options and a political process of negotiation, ending in the promulgation of laws, decrees, and regulations. These policy actions

provide measures of the success of technical assistance. The framework is “content free”, *i.e.*, applicable to any policy area.

Much less common in policy projects is the “closing of the circle”: follow through beyond promulgation to make the new policies work. Typically, this requires selective assistance to the agency or ministry to meet basic institutional requirements to perform its functions; otherwise, the newly enacted policies will not be implemented. Promulgation of new policies is necessary but not sufficient to make the new policies work. Addressing agency or ministerial institutional infrastructure issues and compliance enforcement requires a clear and agreed upon *policy agenda* with well-defined *policy objectives* and a sustained commitment of resources.

The policy component of the project delivered tangible results, producing [quality assessments](#), formulating policy options, and assisting in the promulgation of laws, decrees, and regulations. Comprehensive and highly successful work on the institutional infrastructure of the *Secretaría de Industria y Comercio* (SIC) was begun during the last year to support CAFTA negotiations. The second section of this report summarizes these results.

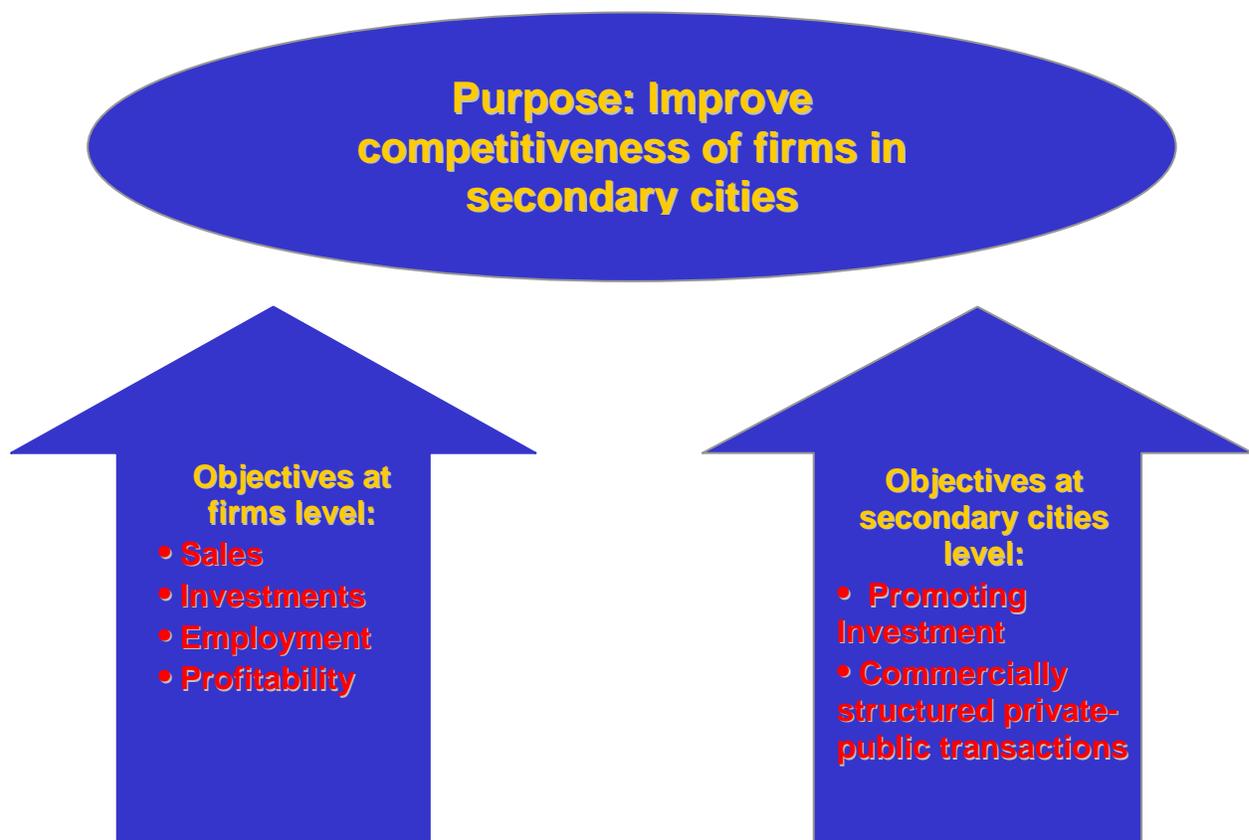
Business Development component

PEP’s Business Development Services component (BDS) provided direct assistance to firms in two economic corridors of the country; the *Corredor Atlántico* and the *Corredor del Sur*:



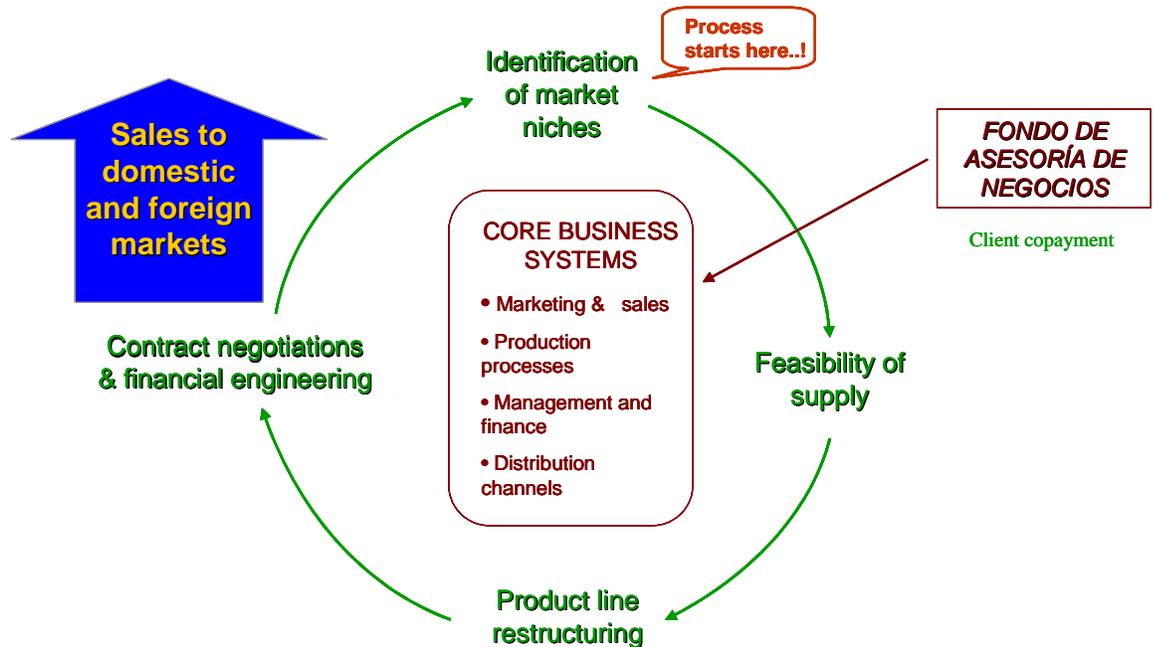
The *purpose* of the BDS component was to improve the competitiveness of firms in the economic corridors, regardless of the sectors they represented. The BDS component supported firms working in the following sectors: shrimp production, leather products, ice-cream making, air transport, water production and distribution, etc.

At the firm level, the commonality across these diverse sectors is that commercially sustainable operations—those that cover their costs—have to address the fundamentals of their core business systems. Firms must manage their costs (i.e., address sales and marketing, production processes, and financial management), produce efficiently what the consumer wants, and make sales. These fundamentals are the same regardless of sector or type of ownership of the firm—private, mixed, or state-owned.



Objectives at the firm level were to increase sales, investment, employment, and profitability; at the city level, the objectives were to promote investment and provide support for commercially-structured private-public transactions.

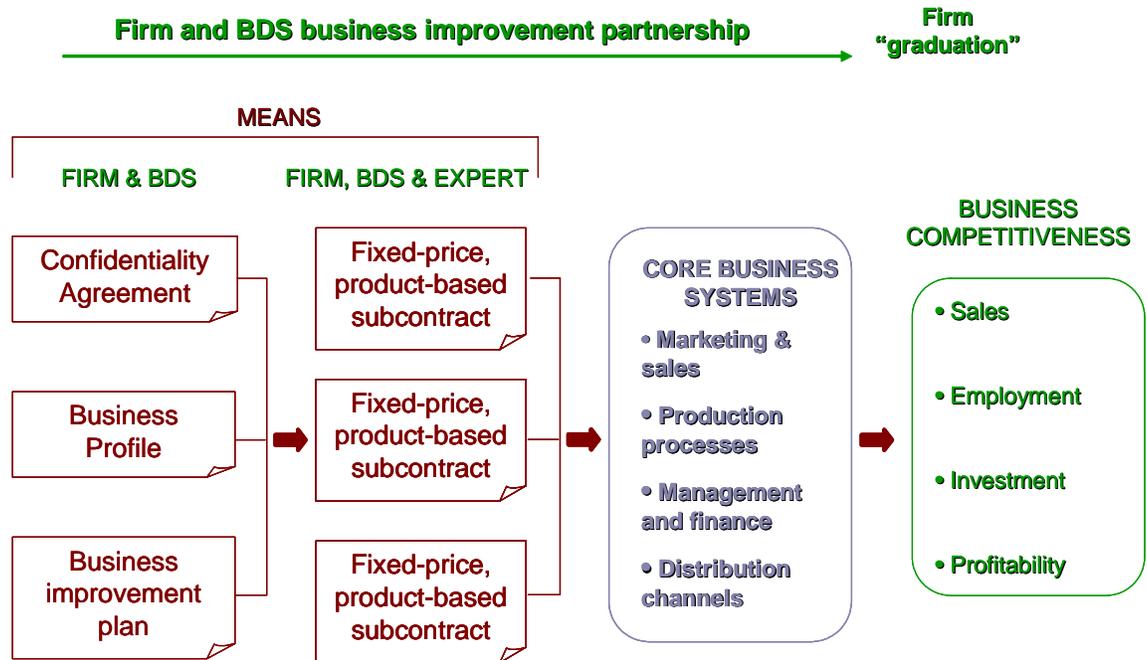
BDS followed a four-step, market-driven approach to improve competitiveness at the firm level. The process began with the identification of market niches for the firm, analysis of the feasibility of supplying these niches, assistance with product line restructuring, contract negotiations, and financial reengineering.



Locally-based advisors provided business advisory services in transaction structuring and closure to client firms. When required, third party service providers contracted on a fixed-price, short-term basis delivered expert advice to improve the core business systems of client firms: marketing and sales, production processes, management and finance, and setting up of distribution channels. Thus, BDS combined a transaction-oriented approach with a business performance improvement program aimed at improving the competitiveness of firms.

Funds from a *Fondo de Asesoría de Negocios* (FAN) set up by the project covered fifty percent of the cost of each technical engagement provided by a third party; client firms paid the remaining half of the cost directly to the provider. The *Fondo* was designed to operate as close to commercial lines as possible and the requirement that beneficiaries of these funds match them on a 1:1 cash basis was consistent with such orientation. PEP considered client co-payment to be a non-negotiable requirement to filter and weed out pure rent-seeking firms, accustomed to handouts by otherwise well-meaning development programs.

The logical framework for the technical assistance provided to the firms begins with a profile of the client firms, a business improvement plan, and a confidentiality agreement. Fixed-price subcontracts with a third-party service provider are negotiated, signed and implemented as agreed upon with the client. These are the *means* used to improve the core business systems of the firm which, in turn, result in improved firm competitiveness: higher levels of sales, employment, investment, and profitability.



PEP’s key premise in designing and implementing its BDS component was that the development of competitive businesses in a city or region is a necessary condition for sustainable economic growth of the region. It is high-potential private sector firms that weave the fabric of regional economic growth and alleviate poverty on a sustainable basis, reducing the need for welfare transfers and out migration in the long run.

In an open market economy it is the private sector that builds wealth, generates employment, and “pulls” economic growth. The project results shown in the second section (Results) validate the foresight of USAID and Chemonics in its proposed restructuring of the project in late 2001. [\[See: Results – PEP PAN 30-Sep-03.ppt.\]](#)

The combination of business advisory services targeting high-potential firms with policy advice provided at the macroeconomic, microeconomic and sectoral levels has been successful and set up a solid

foundation for improved designs of policy projects, a matter discussed in the last section of this report.

REACT: Coping with Hurricane Mitch's aftermath

USAID, bilateral donors, multilateral agencies, and the international community responded quickly and effectively to the devastation Hurricane Mitch brought to Honduras in October 1998. Following emergency relief, international aid flowed into the country to assist in the reconstruction. USAID/Honduras was a leading contributor to the relief efforts, quickly launching emergency assistance programs for affected populations and activities designed to get the economy back on its feet.

The PEP contract was a key contributor to the Mission's efforts to reactivate the economy. From March 2000 through December 2001 the project stepped up its pace and tempo significantly. Its activities focused on restoring the level of economic activity to pre-Mitch levels as fast as possible while helping the Government of Honduras (GOH) maintain sound macroeconomic management of the economy, especially in monetary policy, to cope with the large influx of hard currency.

REACT funds added to the PEP contract in March 2000 supported an aggressive technical assistance and training schedule through December 2001 when this activity ended as scheduled. Project interventions focused on maintaining and consolidating sound macroeconomic policies at the central level and helping representative local organizations in secondary cities (Chambers of Commerce, Competitiveness Committees, micro entrepreneur and farmer organizations) take stock of local needs and develop action plans to address them.

REACT ACTIVITY Counterparts and beneficiaries

- **Central Bank of Honduras:** National Accounts Program, Directory of Business Establishments, computer equipment and software
- **National Congress:** Twenty-six events: study tours, seminars and briefings
- **Ministry of Agriculture:** Sector policies, Honduran varieties craft cheese program
- **Ministry of Labor:** Productivity and forward-inflation based minimum wage setting policies, fiscal impact of the *Estatutos Laborales*
- **Foundation for Investment and Development of Exports (FIDE):** Management of the *Centros de Información y Desarrollo Empresarial* (CIDEs) in eight cities, hardware and software equipment
- **FEDECAMARA:** Executive Director office, vehicle, computer hardware and software
- **Local Chambers of Commerce and Industry:** Training on Chamber management, CIDEs established in eight cities, computer hardware and software
- **Secondary cities program:** Decorative accessories export promotion, Local Competitiveness Committees established, SWOT workshops conducted, five craft cheese manufacturing plants FDA certified, young community leaders program (PROLICO) implemented, sixteen training events, almost 400 people trained

Internal evaluation and refocus of PEP after REACT.

During the last quarter of implementation of REACT, the project developed and implemented plans to effect a smooth transition of these activities to other projects and agencies as well as perform an internal evaluation to refocus PEP activities post REACT.

The evaluators' main conclusion was that *“studies and technical assistance have been of uniformly high quality, have addressed issues of immediate importance for economic recovery and export development, and have been provided to counterparts who want the assistance”*.

PEP's assistance to the Central Bank of Honduras (BCH) in the area of national accounts and consumer price index received high marks and was judged as *“essential to sound policy—cannot make good policy with bad data”*.

Policy area recommendations. In the policy area, the team recommended that the policy agenda be directly responsive to the needs of the private sector and that the policy dialogue be implemented at higher levels. The assessment team outlined five key policy areas:

1. High cost of credit. High interest rates reflecting fiscal deficit; high spreads; potential inflationary pressure from non-performing loans; weak fiscal position following decline of Mitch inflows; continuing problem of making good on guarantees.

2. Appreciated real exchange rate. High interest rates; compulsory surrender of foreign exchange by exporters.

3. Lack of access to credit by rural producers. Major issue raised by secondary city producers, problems with using rural property as loan guarantee.

4. Effectiveness, fiscal costs and distortions of incentives. GOH needs to re-examine them.

5. Key sectoral reforms. Included standards, especially sanitary and phytosanitary, *trámites* associated with company registration and exports, and telecommunications.

Secondary cities program recommendations. The assessment team highlighted accomplishments such as the:

- Galvanization of private and public sector interest in regional economic development through locally held SWOT analyses.

- Preparation of strategic five-year frameworks by Competitiveness Committees.
- Establishment of the Business Development Centers (CIDEs) and development of Internet access capacity.
- Use of a demand-driven approach to the decorative accessories and ethnic cheeses.
- Effective collaboration with other parties, e.g., FINTRAC, Land O'Lakes, INFOP.

The team recommended that the secondary cities program narrow its scope consonant to available resources post-Mitch and focus on results that are important, achievable, and measurable. It suggested that the secondary cities component should:

1. Reduce the number of cities. According to budget resources, select a small number of cities in key economic corridors to concentrate intensive project assistance.

2. Take a transactional, problem-solving approach to specific business problems. Build wealth and jobs on the backs of firms, not through projects or the promotion of sectors or industries; furnish support where the potential for creating incomes and jobs is highest.

3. Work with clients of sufficient size and economic potential. Start-ups may take years to mature and the use of small producers makes it difficult to scale up to demonstrable results in the short-run; encourage outsourcing and subcontracting to increase incomes and generate jobs for SMEs using a demand-driven, not a supply-push approach.

4. Set sales and employment targets. Each economic corridor receiving intensive project assistance should have clear targets monitored continuously to facilitate mid-course corrections as needed.

5. Address secondary cities policy issues only when transactional approach is not sufficient. Engage in these activities in the secondary cities only when they bear a direct relationship to increasing sales and jobs at the firm level.

The team concluded that sharpening the focus, setting clear priorities and targets achievable in the short and medium term, and shifting more attention and budget to business development in the secondary cities would allow the project *“to benefit more from the potential synergy between its two components and have a demonstrable impact on poverty reduction”*.

The following section, *Results*, highlights major accomplishments of the project.

Results

The results of the project are organized into three major areas: economic and financial policy support; sectoral policies and secondary cities (during the REACT Activity); and business advisory services and secondary city development (post REACT).

Economic and financial policy support

Honduras' Poverty Reduction Strategy and HIPC Initiative. PEP efforts to support the GOH in the elaboration of its Poverty Reduction Strategy Paper were rewarded when, on 11 October 2001, the Executive Board of the World Bank endorsed the Poverty Reduction Strategy Paper (PRSP) of Honduras, prepared under the Framework of the Heavily Indebted Poor Countries (HIPC) Initiative. The decision, coming on the heels of the International Monetary Fund (IMF) review of Honduras' PRGF—Poverty Reduction and Growth Facility—on 5 October made the country eligible both for immediate release of IMF funds under the PRGF and additional debt service relief under HIPC. Having reached the “decision point” of the HIPC program in July 2000, debt service for Honduras was to come down as a percentage of exports, government revenue, and GDP as follows, according to IMF estimates:

HIGHLIGHTS OF PEP SUPPORT OF HONDURAS' PRSP

- Framework, organization and draft revisions of PRSP document
- Design of institutional framework and mechanisms for follow-up, monitoring, and evaluation of the poverty reduction strategy
- Role of municipalities and civil society in poverty reduction strategy
- Labor market analysis and productivity for PRSP
- Local participation SWOT workshops and poverty reduction action plans in Choluteca, Danlí, Comayagua, and Santa Rosa de Copán held through the the Competitiveness Committees established by the project, to assist the Ministry of the Presidency in the preparation of the PRSP.

	'98	'99	'00	'01	'02	'03	'04	'05
Debt service paid (\$m)	311	241						
Debt service due after HIPC (\$m)			167	134	210	276	247	258
Debt service as % of exports	13	10	6	4	6	7	6	5
Debt service as % of government revenue	32	23	15	10	14	16	13	12
Debt service as % of GDP	6	4	3	2	3	4	3	3

The nominal \$900m debt service reduction—estimated \$690m net present value at the time—was to finance partially Honduras' poverty

reduction program. A World Bank press release issued at that time called the PRSP "a solid foundation on which to build a better future for all Hondurans" and endorsed the policy reforms and prudent macroeconomic management of the GOH. The debt service relief funds were to help the GOH achieve the following poverty reduction targets: (Footnotes on page 19.)

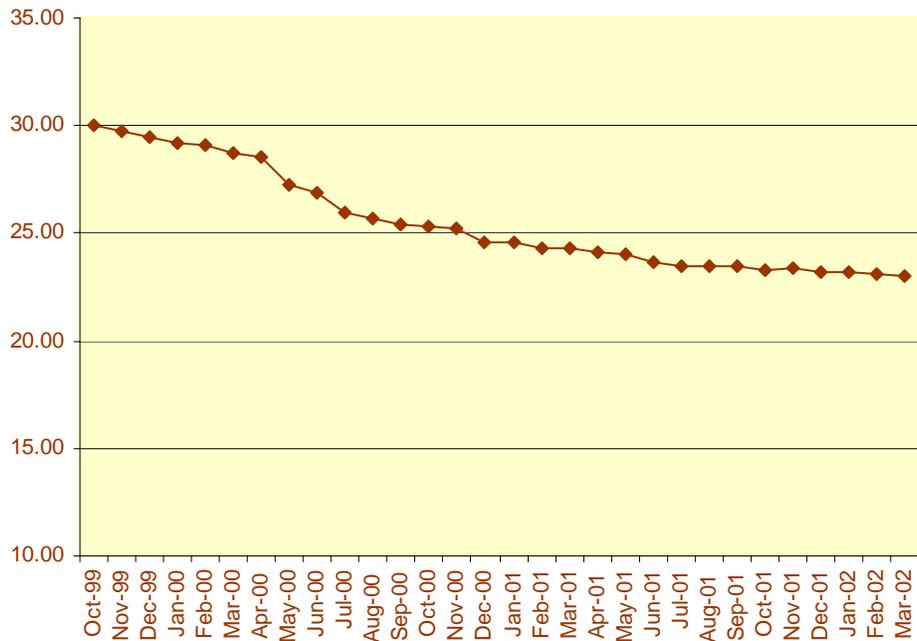
TARGET	INDICATORS	BASE DATA	YEAR						
			2001	2002	2003	2004	2005	2015	
Real GDP	▪ GDP growth rate (2001) ¹	5.0	3.5	4.0	4.5	4.5	5.1	5.6	
Per capita GDP	▪ GDP/Population (2000) ¹	2.5	1.1	1.6	2.1	2.2	2.7	3.7	
Population	▪ Population growth Rate (2000) ¹	2.5	2.4	2.4	2.4	2.3	2.3	1.9	
Social Expenditures	▪ % Social expenditures over total expenditures (2000) ²	44.0	45.0	46.0	47.0	48.0	50.0	50.0	
Reduce poverty by 24 percentage points ³	▪ Poverty rate (1999)	66.0	63.0	61.5	60.0	58.5	57.0	42.0	
	▪ Extreme poverty rate (1999)	49.0	47.0	45.0	43.0	41.0	39.0	25.0	
Double net pre-school education coverage in 5 year-olds ⁴	▪ Net pre-school enrollment (2000)	31.0	33.5	36.0	38.5	41.0	45.0	62.0	
	▪ Pre-school completion* rate (2000)	95.0	95.0	95.0	96.0	96.0	97.0	98.0	
Achieve 95% net coverage in the first two cycles of basic education ⁴	▪ Net enrollment 1 st to 2 nd cycle (2000)	86.2	87.0	88.0	89.0	90.0	91.0	95.0	
	▪ Completion rate 1 st to 2 nd cycle (2000)	60.4	62.0	64.0	66.0	68.0	70.0	85.0	
Achieve a net coverage of 70% in the third cycle of basic education ⁴	▪ Net enrollment of 3 rd cycle (2000)	35.0	37.0	39.0	41.0	43.0	45.0	70.0	
	▪ % students that completed 3 rd cycle (2000)	41.3	42.0	44.0	46.0	48.0	50.0	65.0	
Ensure that 50% of the emerging work force completes secondary education ⁴	▪ Net enrollment in diversified education (2000)	25.0	26.0	28.0	30.0	33.0	35.0	50.0	
	▪ Completion rate diversified (2000)	28.0	29.0	31.0	33.0	35.0	36.0	45.0	
Reduce by half the mortality rate in children under 5 years of age ⁵	▪ Infant mortality rate (per 1,000 live births.) (1998)	33	32	31	30	29	28	17	
	▪ Mortality rate in under 5 year-olds (per 1,000 live births) (1998)	44	44	43	42	40	38	22	
Diminish malnutrition to not more than 20% in children under 5 years old ⁶	▪ Infant malnutrition rate	40.0	38.0	36.0	34.0	32.0	30.0	20.0	
Reduce maternal mortality by half ⁵	▪ Maternal mortality rate per 100,000 live births. (1997)	147	143	138	133	128	123	73	
Achieve 95% access to potable water and sanitation. ⁴	▪ % of population with access to potable water	81.0	82.0	84.0	86.0	88.0	90.0	95.0	
	▪ % of population with access to sanitation systems (1999)	70.2	71.0	72.0	73.0	74.0	75.0	95.0	
Achieve parity and raise by 20% the Human Development Index related to gender ⁷	▪ HDI gender related (1999)	0.640	0.645	0.650	0.655	0.665	0.675	0.770	
	▪ Gender empowerment index (1999)	0.450	0.460	0.470	0.480	0.590	0.500	0.585	
Implement a sustainable development strategy ⁸	▪ Forest area (1996) (% covered)	50.7					53.0	56.0	
	▪ % area under managed protection (1996)	24.0					80.0	100.0 ^y	
	▪ % of rural water containing fecal coliforms (1996)	53.0					45.0	25.0	
	▪ Level of air pollution in urban centers (ug/m3 of PTS)	1,100					900	200	

At the time of PEP's closure, 24 October 2003, the GOH was behind schedule on the implementation of its poverty reduction strategy as

negotiations of a renewed agreement with the IMF continued. This agreement is a condition of full accession to the \$900 million PRGF funds. On November 25, 2003, the head of the IMF’s most recent mission to Honduras released a statement to the press saying that the Government of Honduras and the IMF had reached “a preliminary agreement, at the technical level, on an economic and financial program that could be supported by the Fund under the Poverty Reduction and Growth Facility.”

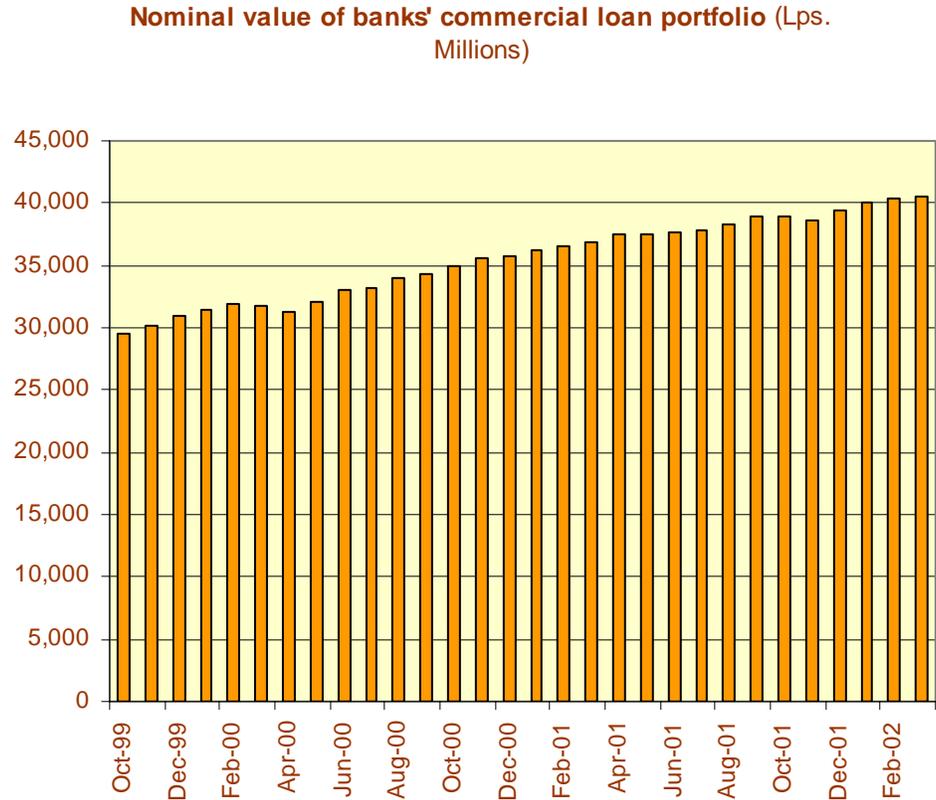
US\$176.2 million reduction in debt service burden brought about by declining average nominal lending rates to the private sector. Project analyses and outside analyses have identified the high cost of credit as a key constraint in the expansion of lending to promote investment and economic reactivation. PEP worked closely on monetary policy with the *Banco Central de Honduras* (BCH) from November 1999 through December 2001 to reduce the cost of borrowing by reviewing commercial banks’ reserve requirements.

Although real lending rates remain high relative to underlying inflation, average nominal commercial lending rates to the private sector have sustained a steady decline. By March 2002, average nominal interest rates charged to private firms by commercial banks dropped 7.03



percent—from an average of 30.03% in October 1999 to 23% in March 2002, as shown below:

During the same period, the nominal value of banks' commercial loan



portfolio grew over Lps 11 billion—from 29.5 to 40.6 billion, a 37.6 percent increase, as shown below:

Had average nominal interest rates on commercial loans remained at 30.3 percent during this period, the annual debt service burden applied to the nominal value of the loan portfolio as of March 2002 would have been 12.2 billion, not 9.3 billion Lempiras. At the official exchange rate of Lps. 16.1912 per dollar, this difference represented a \$176.2 million implied reduction in private firms' debt service burden which, in turn, would provide liquidity to fund new investments and expansions.

Further reductions in the average lending rates will depend on the effectiveness and coordination of monetary policies at the Central Bank, regulations and reserve requirements of the *Comisión Nacional de Banca y Seguros* (CNBS) concerning the quality of banks' loan portfolios, the efficiency of banks' intermediation, and regulations on disclosure of bank loans. The payoff for getting these policies right is

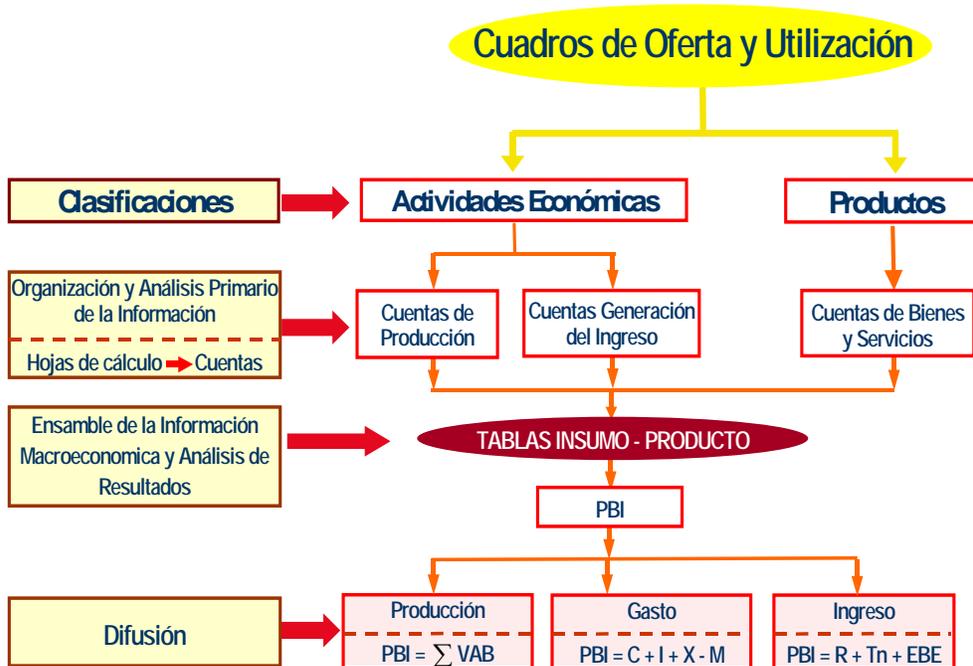
high, as demonstrated by the project's close support of BCH and results obtained through this collaboration.

Revised methodology for National Accounts installed at the Central Bank. REACT funding incorporated into the PEP contract through December 2001 also made possible the installation of a revised methodology for the estimation of National Accounts at the Central Bank.

The project was able to:

- ⇒ Train BCH staff on the norms and application of internationally-accepted SCN-93 standards for national accounts.
- ⇒ Complete work on a pilot test year, 1997.
- ⇒ Conduct the first national census of business establishments, leading to BCH's first release of a *Directorio de Establecimientos Económicos* in CD ROM format.
- ⇒ Establish an Inter-Institutional Committee for National Accounts
- ⇒ Design the Multipurpose Economic Survey.
- ⇒ Achieve a smooth hand-over of the activity for IDB in December 2001—the scheduled completion date of the activity.

Application of SCN-93 standards to the pilot year—1997—required, *inter alia*, the adaptation of taxonomies to organize and code sectors, accounts, transactions, economic activities and products, and cash flows:





PEP consultant, Ms Magda Ascues, at a national accounts briefing, December 2001

This informational base will be supplemented by specialized surveys, leading to a change of the base year of national accounts from 1978 to 2000. The new base year and compliance with internationally accepted standards for national accounts will increase the reliability and acceptance of Honduras' national accounts and statistics.

All indications from the pilot year test data point to a significant restatement of current estimates of macroeconomic aggregates of the Honduran economy when the SCN-93 compliant methodology is fully applied. Currently available and published figures for GDP, rates of investment, growth, etc., appear to be understated by a factor of twenty-five to thirty-five percent.

If this is the case, project support of BCH's new national accounts system, being continued now with IDB support (through June 2004), will have far-reaching consequences for future economic planning in Honduras once these improved estimates of macroeconomic aggregates are released and become widely available.

Release of the first National Directory of Businesses on CD-ROM for public use. An important by-product of the application of SCN-93 standards for the national accounts was the *Directorio de Establecimientos Económicos*—released on CD-ROM for public use by BCH on 19 October 2001 (REACT funds were used to support this activity).



With a user-friendly interface, the CD-ROM provides documentation on the methodology of the survey, interview schedules, coverage of *departamentos* and *municipios*, manuals, summary tables, and the raw data. In addition to a “point-and-click” interface to obtain tables by *departamento* or *municipio*, the user can have access to the data in four formats included in the CD-ROM: ASCII, DBF, Excel and SPSS. Using REACT funds, the project devoted considerable resources to the realization of the *Directorio* from its inception, providing logistics support and contracting 238 supervisors, enumerators, and data entry specialists, among others, to make this nationwide effort possible.

The *Directorio* contains data on 110,832 businesses in 57 municipalities of 15 departments and is part of a larger effort supported by USAID through the PEP Project to assist the Central Bank in implementing the new National Accounts System (SCN93). The *Directorio de Establecimientos Económicos* will become the universe from which to

draw samples of businesses to obtain more detailed information to refine estimates of business activity and GNP.

The project distributed copies of the *Directorio* to the CIDEs (*Centros de Información y Desarrollo Empresarial*), established in the Chambers of Commerce of the secondary cities where the project previously operated with REACT funds. PEP conducted training courses for the Chambers of Commerce and FEDECAMARA to help them identify businesses by type of

activity, size, and location, and to target programs more effectively. To ensure that the information remains useful, it must be regularly updated. This is a major challenge that the BCH acknowledges it will need to address, possibly in collaboration with the National Statistics Institute.

BCH's introduction of U.S. dollar-denominated bonds.

Based on PEP's technical work begun in April 2001, the Central Bank of Honduras announced its decision to issue U.S. dollar-denominated bonds on August 7, 2001 [See: [*“Consideraciones para la implementación de Certificados de Absorción Monetaria en Dólares”*](#)]

As an instrument of monetary policy the dollar-denominated bonds were introduced to:

- ⇒ Permit the Central Bank to sterilize capital inflows, if needed, without side effects on domestic interest rates.
- ⇒ Effect a substantial reduction of the Central Bank's operating costs associated with the Lempira-denominated CAMs (*Certificados de Absorción Monetaria*) as a sterilization instrument.

CENTRAL BANK ON WORKING WITH THE PEP PROJECT

In an October 2003 letter of appreciation, BCH staff member, Héctor Méndez Cáliz had the following to say about PEP's support:

“Quiero por este medio patentizarte mi reconocimiento personal, por la gran ayuda que me brindaste en el desarrollo de los programas, que por suerite desarrollamos en forma conjunta del apoyo del USAID por intermedio de ustedes a los programas del Banco Central de Honduras, entre los que sobresalen la ENIGH, el nuevo IPC, la PEEM, el Directorio de Establecimientos Económicos y otros, todos enmarcados en los programas de fortalecimiento a las cifras macroeconómicas del país y la implementación de la revisión 4 del Manual de Cuentas Nacionales SCN-93.

Asimismo, agradecemos la confianza permanente que tuvieron en la capacidad técnica de esta institución y de la ejecución para los mismos, que nos llevó a una relación de respeto y complementariedad, que fue la base de nuestros logros y de la buena acogida que los mismos tuvieron con el Banco Interamericano de Desarrollo (BID), que fue fundamental para la continuidad de los mismos.”

- ⇒ Provide investors with additional investment options to attract and/or retain their capital in Honduras.
- ⇒ Create a “cushion” against potential capital flights related to foreseen events such as the anticipated change to a more limited insurance scheme to protect bank depositors.

Maturity (days)	Average yield	Awarded (000's Lps)
91	4.0288%	3,370.6
182	4.1250%	0.0
364	4.8750%	12,581.6
Total		15,952.3

The first public auction of dollar-denominated bonds—CADDs, *Certificados de Absorción Monetaria Denominados en Dólares*—took place on 22 August. Total bond value transacted was US\$ 1.027m—at the

set exchange rate of Lps 15.5329 per U.S. dollar—in minimum bids of \$10,000, and par \$1,000 increments.

During the same week, the value of Lempira-denominated bonds (CAMS, *Certificados de Absorción Monetaria*) awarded on the 21 August public auction amounted to Lps. 387.4m. Thus, dollar-denominated bonds (CADDs) amounted to 3.9% of total value of bond transactions during that week, and their weighted average maturity was 306 days, compared to 97 days for CAMs. The yield of dollar-denominated bonds with a 364-day maturity was 5.125%, compared with 16% for a Lempira-based bond of similar maturity. Given existing conditions and rates of world and local inflation, the 16% yield attached to the Lempira bonds—producing a 10.875% yield differential between the instruments—overstated the premium due to this instrument.

Initial investor reaction to the CADDs appeared to be cautious judging from the early responses to the public auctions. This may change as the dollar-denominated bonds get better publicity, the yield of Lempira-based bonds is decreased, and investors find the yields of CADDs to be more competitive relative to alternative investment instruments to which they have access.

¹ UNAT based on figures from SECPLAN/FNUAP/DGEC.

² SEFIN.

³ Estimates based on the PMHS.

⁴ World Bank projections.

⁵ Human Development Report 2000

⁶ PRAF, quoted by the Program for Transition and Protection of Social Expenditures.

⁷ HDI Honduras 2000.

⁸ UNAT, based on various studies.

⁹ Based on the National System of Prioritized Protected Areas (40 protected areas).

Installation of an Early Warning System for exchange and financial crisis management at the Central Bank.

Based on a project-developed initiative, a working group from the Department of Economic Studies

presented a proposal on 2 November 2001 for a system of economic indicators that would allow Central Bank authorities to monitor events that usually lead to monetary or exchange rate crises. The system uses a probabilistic approach to forecast upcoming economic events, thus helping decision makers to improve monetary and exchange rate management.

Designed with the assistance of PEP consultant Juan Carlos Protasi, the Early Warning System would equip the BCH with the tools to forecast critical changes in the behavior of the

economy and manage changes with enough anticipation to avert sudden and deep crises. Similar in design to the EIS (Executive Information System) tools used in leading corporations, the system would “mine” data from existing BCH primary databases, define and develop key indicators, establish their critical ranges, and consolidate them routinely and regularly in electronic form for evaluation and decision-making by BCH management.

The system has been in use by the IMF and other Central Banks only since 1995, making Honduras the first country in the region to employ the system.

VARIABLES INCLUDED IN THE EARLY WARNING SYSTEM		
No	Variable	Indicador
1.	Diferencial de Tasas de Interés Nacionales	Nivel
2.	Sup. (DEF)/PIB	Nivel
3.	Crédito al Sector Privado/PIB	Tasa de crecimiento
4.	Multiplcador M2	Tasa de crecimiento
5.	Reservas/Importaciones	Nivel
6.	RIN del BCH	Tasa de crecimiento
7.	Depósitos Bancarios (Reales)	Tasa de crecimiento
8.	M1 Real	Exceso de oferta sobre demanda
9.	Importaciones	Tasa de crecimiento
10.	TCR	Desvío de la tendencia
11.	Términos de Intercambio	Tasa de crecimiento
12.	Exportaciones	Tasa de crecimiento
13.	Depósitos Bancarios (Nominales)	Tasa de crecimiento
14.	Indice de Alquileres de Vivienda en Dólares	Tasa de crecimiento
15.	Crédito al Sector Público/PIB	Tasa de crecimiento
16.	Diferencial de Tasas de Interés en Dólares	Nivel
17.	Cuenta Corriente/PIB	Nivel
18.	PIB Real	Tasa de crecimiento
19.	IVOFIM	Tasa de crecimiento
20.	M2/Reservas	Tasa de crecimiento
21.	Flujo de Capital Privado/PIB	Nivel
22.	Deuda C/P del BCH/RIN	Nivel

The Early Warning System will issue alerts when pre-set critical levels of indicators are reached. The group working on the system emphasized that the selection of indicators and their acceptable ranges will be critical to avoid false alarms.

The working group selected twenty-two variables as the best indicators of exchange rate vulnerability and reviewed their monthly performance during the last eleven years.

By December 2001, after considerable work on database consolidation and indicator variability behavior over time, the working group had begun database consolidation and was set to proceed with model testing and validation using historical data. Based on feedback received from the BCH in late 2003, the system is being implemented and the indicators are being monitored on a monthly basis. The *Comision Nacional de Banca y Seguros* is also utilizing the system. After the initial design of the system by PEP consultant, Juan Carlos Protasi, the IDB has been providing important technical assistance with the implementation phase.

Facilitating the transition to a new administration. PEP's technical analyses contributed to core sections of FIDE's report, *Políticas económicas y competitividad*, containing short and medium term policy proposals and action recommendations. Discussed on 13 August 2001 at a meeting of its Board of Governors and with the participation of representatives from diverse sectors of civil society, FIDE presented a summary of its macroeconomic and sectoral policy proposals. After discussion, the Board unanimously endorsed the policy proposals contained in the report, agreed on its publication, submission to the advisory teams of the presidential candidates, and public dissemination.



Mr Nelson Ávila, Coordinator of the Liberal Party's team of technical advisors (center) receives briefing document.

On 22 November 2001, coordinators of the technical advisory teams of the presidential candidates received final copies of the document produced by FIDE's *Centro de Análisis y Propuestas* (CAP) —formerly, FIDE's “think tank”. Attending the event were Mr. Nelson Ávila from the Liberal Party, Mr. Luis Cosenza and Mr. Carlos Ávila Molina from the National Party, Mr. Olban Valladares from PINU, and Mr. Orlando Iriarte from DC. Mr. Matías Funes, from UD, was unable to attend the ceremony and would later collect the document.



Mr Carlos Ávila Molina, Coordinator of the Nationalist Party's team of technical advisors (right) receives briefing document.

Enriched through discussions and fora held with analysts and key representatives from civil society, the document provides background and technical analyses of key policy issues affecting Honduras' competitiveness and offers a policy framework agenda for the new administration.

The ceremony marked the closure of PEP's work with FIDE to negotiate a broadly supported policy agenda for the new administration.

Improving the quality of policy making: PEP's support of

Congress. Working closely with leadership of the National Congress of Honduras, the project developed and implemented an active program of seminars, briefings, and study tours to provide Congress members with the technical seminars, first-hand experiences, and policy options to improve the informational base for policy issues and legislation under consideration.

Significant activities funded under the REACT amendment to the PEP contract included:

- ⇒ A study tour of 14 people, mostly Members of Congress to Argentina and Perú in June 2001 to examine the privatization experiences of these countries in the energy and communications sectors.
- ⇒ A macroeconomic & microeconomic policy series, covering topics such as the determinants of economic growth, macroeconomic accounting, fundamentals of price determination, macroeconomic growth and poverty; delivered to approximately 35 Members of Congress.
- ⇒ A domestic study tour with approximately 42 Members of Congress to La Ceiba to discuss tourism policy initiatives (during the latter



Diputado Virgilio Umanzor, Chair, Budget Commission, opening the PEP-sponsored *Macroeconomic Policy Series* at Congress, 24 July 2001.

stages of the PEP project, the project provided technical assistance to enhance the La Ceiba area).

⇒ A two day off-site workshop to discuss economic policies in depth (approximately 51 Members of Congress participated).

Other examples can be found on pages II-1 through II-3 of the REACT Final Report. [Click here to access the report.](#)

Exposure to Regulatory Experiences of the Energy Markets of Argentina and Peru has an Impact on Honduran Congressional Decisions

Energy costs in Honduras are relatively high by world standards. A weak regulatory capacity and lack of transparency in the procurement and award of energy supply contracts to private local producers is largely to blame.

Congress members exposed to the Peruvian and Argentinean experiences in the regulation of the energy sector through a privatization tour sponsored by PEP led the opposition against extending costly energy supply contracts signed by the state with some private local electric service suppliers. In mid-August 2001 these policy makers pushed for and succeeded in reversing a decision that was costly and lacked transparency.

While this reversal of the decision by Congress to extend costly energy supply contracts with local private producers was a small victory in the path to reorganizing the energy sector to make it more competitive, it was a big step to improving transparency in public procurement.

Congress members participating in the June 2001 visit to Argentina and Peru gained first hand knowledge on the regulatory and privatization experience of these countries in the energy and telecommunications industries—a timely topic in Honduras. The study tour delegation included members of the National Party, the Liberal Party, the Democratic Union Party (UD), the National Innovation and Unity Party (PINU), civil society and a key member from the Privatization Consultative Committee. The delegation included two presidential candidates, Olban Valladares (PINU) and Matías Funes (UD). In addition to gaining this exposure, Congress members built consensus as they argued their different viewpoints during the course of the tour.

PEP's work with Congress members has sought to facilitate their exposure to experiences and lessons learned in other countries to promote better policies and an effective regulatory framework. Congress members' knowledge of the regulatory and privatization experiences of Argentina and Peru served them well in this case.

Training future policy makers: The Annual Summer Economics courses for young professionals.

Proposed initially by Chemonics in 1995 under the USAID-funded PRODEPAH Project, the Annual Summer Economics courses ran for eight consecutive years under the auspices of USAID and the Central Bank. The annual sessions have trained 233 young Honduran professionals and many of the former graduates are now moving into positions of leadership in the private and public sectors. They will be expected to contribute to more informed decision-making and help realize former U.S. Ambassador Almaguer's words:



From left to right, panel members, Dr Pablo Cotler, Mr Juan Carlos Pérez Cadalso, Ms María Elena Mondragón, Mr Paul Tuebner, Mr Jesús Anariba, and Fernando Bertoli hand out diplomas to course participants at the 8th Annual Summer Economics Course, July 2002. Ms Margarita Rojas, far left, officiated as master of ceremonies.

"Para que un país prospere, se requiere de líderes tanto del sector privado como en el sector gubernamental que den cuenta de su proceder, cuya ética personal y profesional sea intachable y que den confianza a su pueblo de la capacidad y compromiso de sus líderes. Ustedes serán esos líderes..."

Designed for mid-career officers, participants have come from institutions such as the *Banco Central de Honduras (BCH)*, the *Comisión Nacional de Banca y Seguros (CNBS)*, the Ministry of Finance, the *Secretaría de Industria y Comercio (SIC)*, the President's Office *Unidad Nacional de Análisis Técnico (UNAT)*, the *Instituto Nacional de Estadística (INE)*, and from the *Unidad de Planificación, Evaluación y Gestión (UPEG)*, of the *Secretaría de Agricultura y Ganadería (SAG)*



Participants at the 8th Annual Summer Economics Course, July 2002.

A close partnership between BCH and PEP made all courses possible. PEP provided the instructors and logistics support and BCH covered all remaining local costs such as textbooks, instructional materials, international per diem and lodging for instructors.

Support for INE's first annual Applied Statistics course.

Patterned after the successful Economics Courses offered by the Central Bank under PEP auspices, INE completed its first annual course in Applied Statistics during late August and early October 2001. Twenty-eight participants received instruction during six weeks in each of the modules on applied

statistics, survey design, sampling, econometrics, demography, and national accounts. A computer laboratory provided participants with hands-on learning and experience in data processing, analysis, and interpretation of real life data sets using standard, professional statistical analysis packages.



Participants at the graduation ceremonies of INE's first Applied Statistics course, October 2002.

PEP and the Swedish Agency for International Development assisted INE with a roster of international instructors assembled for the course and assisted with logistics.

Ms. Victoria Asfura de Díaz, then President of the Central Bank, Mr. René Soler, Deputy Executive Director of INE, Mr. Dennis Sharma, formerly with USAID/Honduras, and Ms. Ina Eriksson, First Secretary of the Embassy of Sweden, were present at the

graduation ceremonies and awarded the diplomas.

The course was responsive to PEP's objective to improve the capacity of selected GOH institutions to develop, analyze, and monitor policies by increasing the supply and upgrading the skills of young professionals in technical areas to support decision-making in policy areas.

Sectoral policies and secondary cities program during the REACT amendment

The Honduran craft cheese varieties program. Hurricane Mitch reconstruction funds (REACT) supported a two-year project involvement in regulatory, technical, and marketing aspects of the dairy industry focused on the promotion of exports of Honduran craft cheese varieties to the Hispanic U.S. markets. At the request of the Mission, PEP prepared a dairy sector policy assessment and an action plan to modernize craft cheese manufacturing plants, strengthen the regulatory framework and plant inspection procedures of SENASA, and examine marketing opportunities for Honduran craft cheese varieties: *queso seco*, *queso semi seco*, and *quesillo*.

Results delivered by the project during its two-year involvement in the sector included:

- ⇒ An [“Assessment of U.S. Hispanic market for Honduran traditional cheese varieties”](#), completed in 2001 that documented and estimated the enormous demand for this type of cheese in selected U.S. cities with large Hispanic populations.
- ⇒ Support to SENASA in the preparation and eventual promulgation of the [“Reglamento de Lácteos”](#) in July 2001, while FDA inspectors were in country certifying cheese-processing plants.

Pan de yema, semita, concha, semita larga and lengüitas made and packaged for Rio Grande Foods Inc. for the U.S. retail market by Panadería Tábora,



- ⇒ FDA certification, received in September 2001, of all five craft cheese manufacturing plants proposed: Telica, El Boquerón, Jutiquile, and Las Peñitas in Olancho and Sampile in Choluteca. (based on a discussion in late 2003 with former PEP consultant, Raul Amador, Sampile is the only manufacturing plant that has been able to maintain steady exports).
- ⇒ Assistance to craft cheese processors in supply contract negotiations with a leading U.S.-based food distributor, *Rio Grande Foods, Inc.*, identified in the U.S. market study, and initiation of export of Honduran craft cheese varieties to the Hispanic U.S. markets.
- ⇒ Organization, with the Olancho Chamber of Commerce, of the *National Cheese Festival* in November 2001.
- ⇒ Assistance to *Rio Grande Foods, Inc.* in the establishment of a subsidiary in the country to source Honduran food products for the U.S. market (former PEP consultant, Raul Amador, is currently serving as the Rio Grande representative for Honduras and Nicaragua).
- ⇒ Draft and hand over to SENASA and the PROEXLAC project identity norms for Honduran craft cheese varieties (*queso seco, queso semi seco, and quesillo*) to register these products as internationally recognized cheese varieties and avoid U.S. tariff quotas and restrictions for *quesillo*, currently classified in “other cooked cheeses”.
- ⇒ Preparation of internationally accepted and FDA-compliant inspection manuals and forms for pasteurized milk, dairy, and cheese plants, as well as training of SENASA’s inspectors on systems and procedures for plant inspections.

WHAT OTHERS SAY...

“It has taken outsiders, namely PEP, to notice what the region has to offer that is unique. We in Olancho take all these things for granted and do not realize our potential. The Cheese Festival will get better every year as we get more businesses involved and attract the interest of visitors from the rest of country.”

Mr Celeo Guifarro, President of the Olancho Chamber of Commerce and Industry.

National Cheese Festival. Olancho. November 2001.



At the end of REACT funding and PEP’s involvement in the activity, in December 2001, a blueprint of activities to continue promotion of the export program of Honduran craft cheese varieties was prepared and handed over to the Ministry of Agriculture and SENASA: *“Promoción de la exportación de quesos artesanales hondureños al mercado de Norteamérica”*.

During the time of PEP’s activities in this sector, the project coordinated closely with SENASA and other USAID-funded projects. PEP’s sector assessment was done at the request of the Land O’ Lakes’ milk quality

improvement project, the PAILA Project of Texas A&M University and Louisiana State University provided technical assistance to milk producers and plant processors, and PROEXLAC introduced BPM (Best Manufacturing Practices) at the plant level and supported export promotion activities.

Hand-made paper covered decorative ceramic pot.



Hand-made paper covered gift boxes.



The decorative accessories program. REACT funding supported an intensive program of decorative home accessories for export to the U.S. markets as a means of providing employment to micro and small entrepreneurs in the secondary cities where the project operated.

Project interventions in this area began with a U.S. market demand study in the fall of 2000 targeting mainline distributors with a long-standing presence at the International High Point, North Carolina, Furniture Trade Fair. The market study identified demand in six product lines capable of being sourced from producers in secondary cities: hand-made paper, waste pine wood, coffee wood, seeds, ceramics, and iron.

The project identified U.S. designers with relationships to Toyo Trading, Ideal Originals, Wildwood Lamps, and Montaaage to provide assistance to selected producers in secondary cities on product design, production techniques, and quality control. Repeated engagements of international consultants provided secondary city producers—mostly women’s groups—with assistance on hand-made paper manufacturing techniques and training of local trainers to achieve a multiplier effect.

FEDECAMARA, local Chambers of Commerce, project-supported Competitiveness Committees, and locally based coordinators worked through repeated iterations of product design and production to prepare samples for U.S. distributors. These samples were shipped in time for orders at the April and October shows of the High Point Furniture Trade Fair. A manufacturer and consolidator of decorative accessories, ATUTO, provided logistical support in the packing and shipping of samples and orders.

WHAT OTHERS SAY...

“I am happy that American companies are now willing to buy our products”

Ms Oneida Girón, ceramics producer from El Porvenir, a Siguatepeque rural village where more than 150 families are dedicated to this activity.

Hand-made paper products from *Ensueños de Papel*, a women's group in micro enterprise from Danlí.



Ensueños de Papel women microentrepreneurs receiving a Lps. 32,000 loan from the Covelo Foundation, October 2001.



Efforts in the decorative accessories activity were rewarded and showed that Honduras had the potential to become a source of these products for mainline U.S. markets. By October 2001, women producers from El Chiflón, Linaca, Comayagua, and Danlí filled orders for 375 products from Toyo Trading, Wildwood Lamps, and Ideal Originals, in time for the High Point Trade Show. The total FOB value of the orders filled for these distributors exceeded \$125,000 at that time.

WHAT OTHERS SAY...

"It has taken us a lot less time to get Honduras products initially accepted in this market than it took, say, the Philippines to achieve this."

Mr Ernie Owens, U.S. designer of decorative accessories.

The project, working with FEDECAMARA, also supported the linkage of decorative accessory small producers to the domestic markets, with sales of hand-made paper products reaching Lps. 184,000 by the end of the activity.

Based on a discussion with the Executive Director of FEDECAMARA, Mr. Juan Moya, in late 2003, we understand that *Ensueños de Papel*, the



PROLICO-trained leader, Ms Jenny Recarte, explains the latest product samples of deco accessories sent to the October 2001 High Point, NC, Trade Show.

women's hand-made paper microenterprise based in Danlí is achieving sales between Lps. 10,000-20,000 each month. These are domestic sales and the Central Bank of Honduras has become a steady client.

Consistent with the USAID/Honduras Mission post-

REACT strategy, the project coordinated closely with the new Aid to Artisans Project to take over this activity by the end of PEP's involvement in December 2001.

PEP's work in decorative accessories was successful in positioning Honduran products in the U.S. markets and linking secondary city microentrepreneurs to these markets. Penetration of these markets in the future will require sustained efforts. A report prepared by the GTZ in June 2002 included a positive case study of the methodology used by the PEP Project to access new markets for decorative accessories.



Thirty community leaders from rural areas of Olancho, Atlántida, Comayagua, Copán, Choluteca, Lempira, and Colón receive their diplomas for completion of PROLICO's second training module. The event was held in La Ceiba from 22 through 25 October 2001.

The village youth leadership training program.

Using a hands-on learning approach, PEP's REACT-funded *Programa de Líderes Comunales* (PROLICO) trained young community leaders in the identification, appraisal, design, and implementation of small village-based production projects such as poultry production, home furniture making, apparel making, pork production, horticulture production, cassava production, candle making, guest houses, bakery, and shoe making.

Leaders trained through the PROLICO program helped their municipalities and communities organize income-generation projects for rural families in the regions of the eight secondary cities where the project operated during the REACT activity. PROLICO leaders also acted as linkages between their communities and the Business and Information Centers (CIDEs) established by PEP and FEDECAMARA and housed in the local Chambers of

Commerce.



INFOP, PEP and FEDECAMARA sign training agreement to support the PROLICO program. Tegucigalpa, 16 October 2001.

PEP and FEDECAMARA leveraged their resources by teaming with INFOP—the *Instituto Nacional de Formación Profesional*—to support the PROLICO program and other training. The agreement included the delivery of course modules covering generic skills such as basic accounting and export procedures, training of trainers methods, as well as specialized courses targeting vertical markets—such as tourism—in La Ceiba, Copán, and Comayagua.

At the end of October 2001, the PROLICO program had offered 650 person/days of training to a total of 50 rural community youth leaders from several secondary cities.

Twenty community leaders completed the five training modules of the program. The thirty additional leaders

completed three modules as of December 31, 2001. As expected PROLICO leaders have been more active than those of other regions. For instance, in Comayagua and La Ceiba they have been able to develop more project initiatives with their own communities than in the southern region. This program has helped to provide employment and income generation opportunities, with REACT funds, to small producers in secondary cities affected by Mitch.

Fostering competitiveness: Reducing bureaucratic red tape for export-oriented businesses

The fourth in a series of technical analyses on foreign trade policies and practices, export financing, and export incentives, the “Facilitación de Trámites para el Comercio Exterior” assessed the legal, regulatory and procedural framework affecting the export sector, and proposed a detailed agenda of priority actions and their sequence to remove major barriers to Honduran business competitiveness in the sector.

Proposed actions to be taken included, *inter alia*, the following:

- ⇒ Perform a thorough review of the disparate and often contradictory dispositions contained in legislation, regulations, and procedures enacted since the early 1980’s concerning the three export incentive schemes currently in use in Honduras.
- ⇒ Harmonize and consolidate the three existing export incentive schemes into one capable of promoting exports based on the exoneration of import duties for raw materials, capital and intermediate goods, and phased compliance with WTO guidelines and requirements for non-distorting incentives.
- ⇒ Extend eligibility requirements of the new scheme to businesses not currently benefiting by eliminating the requirement that the firm must be 100% dedicated to exports.
- ⇒ Minimize the requirements for eligibility under the new unified export promotion incentive scheme and the information requested from businesses.
- ⇒ Establish effective control mechanisms at the *Dirección Ejecutiva de Ingresos* to supervise the application of eligibility requirements and strengthen the capacity to detect infractions and prosecute transgressors.
- ⇒ Compile, document, and analyze current procedures for the establishment, registration, and operation of businesses, including eligibility requirements for the diverse systems of incentives with the objective of producing an initial Investor’s Guide.
- ⇒ Based on this initial Guide, proceed with the elimination of redundant requirements and those without legal basis, and minimize the information solicited from businesses in order to simplify procedures and reduce administrative burden.
- ⇒ Begin a process of careful consolidation, in one office, of all administrative procedures businesses may qualify under incentive schemes for forestry, mining, tourism, maquila, etc.

- ⇒ Revise procedures at the *Centro de Trámites a las Exportaciones* to consolidate, in one document, the diverse permits required by different agencies.
- ⇒ Promulgation of the Administrative Simplification Law, then in Congress since June 2000.

Having completed the assessment and proposed reform agenda for the simplification of administrative procedures for the export sector in September 2001, towards the end of the preceding administration, the project shared these with the technical advisory teams of the presidential candidates. Implementation of the proposed reform agenda would have to wait for the interest and political will of the new administration.



Transitions: End of the REACT Activity, new administration and restructuring of the project. The final quarter of implementation of the REACT Activity, October-December 2001 was a period of intense project activity. The technical advisory teams of presidential candidates, as described earlier, received briefings and copies of PEP's policy assessments and options. After examining the documents, some of the teams came to the project for more in-depth discussions.

The project was successful in achieving a smooth transition for core REACT-funded activities. IDB picked up the support for the ongoing National Accounts program at the Central Bank, the Aid to Artisans Project continued PEP's work in the decorative accessories sector, the secondary cities program was downsized to two cities and their economic corridors, and the policy component of the project was focused on a policy agenda largely driven by the provision of support for the negotiation of free trade agreements (FTAs) in which Honduras is involved.

The restructure and downsizing of the project was consonant with the resources available after the infusion of REACT funds and followed the recommendations of the internal evaluation described earlier. The remainder of this section highlights results achieved from January 2002 through the end of the contract in October 2003.

Reduction of business transaction costs: Promulgation of the Administrative Simplification Law.

Originally remitted to Congress on 28 June 2000, lobbying efforts resulted in passage of the Administrative Simplification Law that stipulates, *inter alia*:

- ⇒ Simplified requirements and procedures for company registration and compliance, eliminating the *calificación judicial*.

- ⇒ The *afirmativa ficta*—if an agency of the government does not respond to a petition within forty days, it is considered approved.
- ⇒ No taxes for company formation.
- ⇒ That only two shareholders are required for *sociedades anónimas*.
- ⇒ Simplified bookkeeping requirements for businesses.
- ⇒ Duties of agencies to inform public about procedures, costs, provide forms, simplify processes, etc.

COHEP, FEDECAMARA, Fundación Covelo and PEP joined forces with Congress in the design of materials for a public information campaign to disseminate the simplified requirements.

Trade policy support: *Herramientas de acceso a los mercados del Canadá.* Working with an International Institutional Task Force organized and supported by the project, the report entitled “*Análisis de la situación actual y perspectivas de la relación comercial entre Honduras y Canadá*” reached completion in time for negotiations of a free trade agreement with Canada in early August 2002.



On 13 September 2002, Mr. Jacobo Regalado, COHEP President, handed over the final version of the market access report to Ms. Juliette Handal, then Minister of Industry and Commerce and Mr. Mariano Jiménez, Minister of Agriculture.

Released in print and in a CD format for wider distribution, the report presented an overview of the Canadian agricultural and industrial sectors, support programs, and technical norms relevant to trade relations between the two countries. The report also contained detailed analyses of the relative position and evolution of exports in the Canadian market niches where Honduras has a presence.



In late September 2002, the project released the compact disc “*Herramientas de acceso a los mercados del Canadá*”. Aimed at entrepreneurs and with a user-friendly interface, the CD gathered together:

- ⇒ The report “*Análisis de la situación actual y perspectivas de la relación comercial entre Honduras y Canadá*”.
- ⇒ An analysis of trade flows between Honduras and Canada—tables and graphs.
- ⇒ A seven-year time series analysis of the twenty-five main market niches for Central American exports to Canada—tables and graphs.
- ⇒ A seven-year time-series market share analysis of Honduran exports in the Canadian market niches where it competes—tables and graphs.

- ⇒ A guide to the Harmonized Tariff Schedules and foreign trade classification systems.
- ⇒ An Internet directory of trade statistics sources, including links to the sites.
- ⇒ Reference documents used—in pdf format.
- ⇒ Full text of Free Trade Agreements signed by Canada with Latin American countries—in Acrobat format.
- ⇒ Printing facilities for all documents and databases contained in the CD.
- ⇒ A user guide containing program utilities and installation instructions.



The CD “*Herramientas de acceso a los mercados del Canadá*” has been widely distributed and its full contents, including trade databases, are available on the COHEP and SIC servers for public access.

Trade policy support: U.S. Market Access Report and Honduras-USA trade flows database.

Based on the successful approach used in the preparation of the CD “*Herramientas de acceso a los mercados del Canadá*”, the project worked with COHEP and an inter-institutional task force to produce an “[*Análisis de la relación comercial entre Honduras y los Estados Unidos de América*](#)”. The report was formally presented at the COHEP’s Executive Meeting of 22 January 2003. The report is organized in four broad sections:

- ⇒ A six-year longitudinal analysis of trade flows between Honduras and the USA, including the structure of exports and imports and trade balance.
- ⇒ Trade regimes of the USA including, *inter alia*, Harmonized Tariff Schedules, Generalized System of Preferences, the Caribbean Basin Initiative, provisions of the Trade Act of 2002 (TPA), sanitary norms, and rules of origin; for Honduras, the report examines tariff schedules, sanitary norms, rules of origin and support programs for trade and agriculture.
- ⇒ A detailed sectoral analysis of trade flows, the bulk of the report, presents an overview of trade regimes applicable to the sector and a seven-year time-series market share analysis of Honduran exports in the U.S. market niches where it competes—tables and graphs.
- ⇒ Conclusions and recommendations.

The project also released in February 2003 a companion CD entitled “*Herramientas de acceso a los mercados de Estados Unidos de América*” and distributed multiple copies to SIC, COHEP, SAG, USAID, and other institutions. The document and CD tools contained analyses of trade relations between Honduras and the United States, U.S.

trade policies, analyses of Honduran exports in U.S. market niches, databases and reference documents. Access to the databases and documents will be provided through the SIC server as part of the *Sistema de Información de Negociaciones Comerciales (SINC)*.

Improved trade capacity. Preparation for and negotiation of free trade agreements with Canada and the U.S. became a priority concern of the Honduran government during the last two years and most of PEP's policy work during the last two years reflected this concern. The *Secretaría de Industria y Comercio (SIC)*, the GOH entity charged with leading the negotiations of free trade agreements (FTAs), received timely and targeted support. Tangible results of this assistance included:

- ⇒ A significant upgrade of SIC's information management capacity through a project-funded acquisition and installation of a state-of-the-art server to support a trade information system, the *Sistema de Información para las Negociaciones Comerciales*, and mobilization of \$85,000 from IDB's Trade Negotiations Support Program to fund workstations, network equipment, and wideband Internet connectivity.
- ⇒ Organizational restructuring of the *Subsecretaría de Comercio Exterior* to handle FTA negotiations, with funding of \$287,000 obtained from IDB to support the creation of a technical analysis unit for international trade.
- ⇒ Counterpart funds of \$42,000 for the IDB Program Agreement and allocation of Lps 5.97 million obtained from the national budget to support trade negotiations.
- ⇒ Project-funded formulation of a communications strategy and implementation plan for CAFTA negotiations and funding of \$101,000 obtained from the *Banco Centroamericano de Integración Económica (BCIE)* and \$182,945 from USAID IR 4 PROALCA funds.
- ⇒ Project funded design and implementation of eight regional and sectoral *conversatorios* ("town hall" meetings) on CAFTA negotiations with civil society and entrepreneurs.
- ⇒ Technical analysis of Honduran agricultural products considered sensitive to inform the fifth round of CAFTA trade negotiations.

These results are briefly summarized below.

Development of the *Sistema de Información para las Negociaciones Comerciales*. Early in February 2003, the project funded the acquisition and installation of a server, operating system (Windows 2000 Server and Exchange), router, firewall, UPS, and tape backup to support shared access to trade negotiations documents at the *Secretaría de Industria y Comercio (SIC)*. Based on the IT infrastructure assessment report,



Adquisición de equipos para el mejoramiento de la infraestructura informática de apoyo a las negociaciones comerciales, [see report] the project assisted SIC in obtaining \$85,407.15 from IDB's Program of Trade Negotiations Support (Non-Reimbursable Technical Cooperation Agreement No. ATN/SF-7665-HO) to fund workstations, peripherals, and network equipment to support the trade information system. Similarly, project assistance provided to SIC secured an allocation of \$42,000 in matching funds from the *Secretaría de Finanzas* (SEFIN) to acquire office equipment and wide band Internet connectivity to develop SIC's *Sistema de Información para las Negociaciones Comerciales*.

Functional and organizational restructuring of the *Secretaría de Industria y Comercio* to support trade negotiations. At the request of SIC, the project prepared an organizational assessment to support trade negotiations and a proposal for restructure. The document, *Estructura organizativa actual y propuesta de reorganización* [see document] was completed in February 2003 and helped define SIC's information technology infrastructure requirements. The assessment proposed the creation of two new units to support trade negotiations: a Technical Analysis Unit and a *Unidad de Información y Divulgación*.



In March 2003, the document *Creación de la Unidad de Análisis Técnico y Divulgación de Comercio* [see document] defined the mission, organization, functions, initial work plan, and budget of the Technical Unit. A small staff of two to three well-trained professionals was proposed to provide technical analysis support for trade negotiations through agile contracting and management of short-term specialists to conduct specialized studies required for trade negotiatons.



After internal review, SIC submitted the proposal to the IDB's Program of Trade Negotiations Support and obtained endorsement of the disbursement request for \$287,551 to implement the unit.

Development and implementation of a communications strategy and outreach program on CAFTA negotiations. During February and March 2003, at the request of SIC, the project prepared and completed the design work on a communications strategy to support CAFTA. The document, *Estrategia de Comunicación TLC Honduras – USA*, proposed the themes, messages, image factors, and means of communication

suitable to reach diverse segments of civil society, agricultural producers, and businesses in the diverse regions of the country.

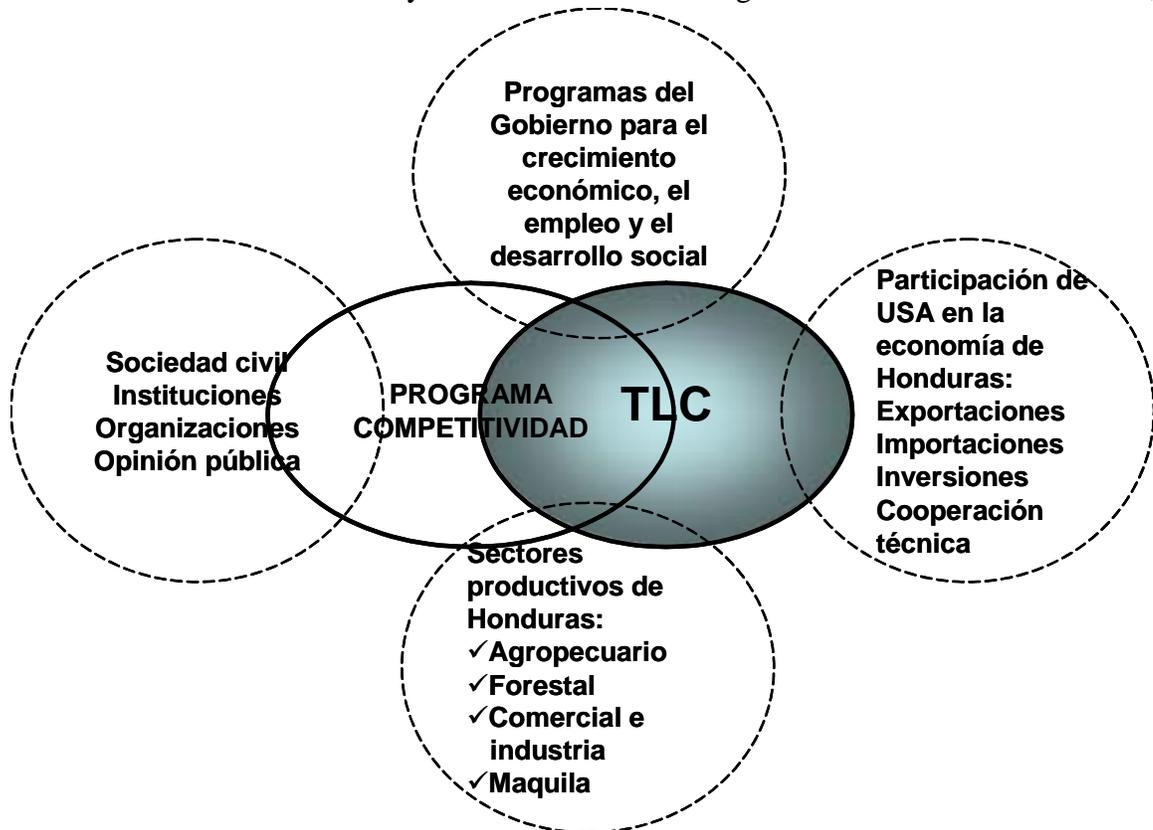
The communications strategy was widely discussed within SIC, the Ministry of the Presidency, USAID, FIDE, and PEP, leading subsequently to the elaboration of a budget and plan of action for its implementation.



The strategy proposed that CAFTA be given prominence through its integration with the government economic and social development programs and that it be used as a centerpiece in a change strategy, as shown in the Exhibit below.

The project assisted SIC with its submissions of the action plan and budget to the *Banco Centroamericano de Integración Económica* (BCIE) and USAID’s regional G-CAP program. By the end of June 2003, BCIE granted funds of \$101,000 and by the end of the third quarter of 2003, USAID’s G-CAP Program approved funding of \$126,000.

Implementing the communications strategy: The CAFTA civil society outreach program. Through June and July 2003, the project worked closely with SIC in establishing the *Unidad de Comunicación*,



**“SENSITIVE”
AGRICULTURAL
PRODUCTS
CONSIDERED**

- White and yellow maize
- Rice
- Poultry
- Eggs
- Beef
- Pork
- Fluid milk

developing the design of the *Talleres Regionales de Aprovechamiento de Oportunidades del CAFTA*, and preparing materials for the *conversatorios* (workshops) with civil society. Presentation materials prepared for the first round of *conversatorios* with civil society included:

- ⇒ [*La política comercial externa de Honduras*](#)--Honduras’ trade policy.
- ⇒ [*Los tratados de libre comercio*](#) (TLCs)—what is a free trade agreement?
- ⇒ [*Estado actual de las negociaciones del Tratado de Libre Comercio con los Estados Unidos*](#)—status report on CAFTA negotiations as of August 2003.
- ⇒ [*Las oportunidades de los nichos de mercado en los EUA*](#)—market niche opportunities in the U.S.
- ⇒ [*Política laboral de Honduras vinculada al tema comercial*](#)—Honduras labor policy and trade.
- ⇒ [*Política ambiental vinculada al tema comercial*](#)—environmental policy and trade.
- ⇒ [*Sensibilidad de sectores productivos hondureños*](#)—sensitive agricultural products in Honduras.

WHAT OTHERS SAY...

“With USAID support, the GOH has been able to send its negotiators to the people in the communities where they live, hear their concerns first hand, and make the case for CAFTA to each community in the most direct way possible.”

Mr Tom Hastings, Economic Officer, U.S. Embassy in Honduras.

The CAFTA Civil Society Outreach Program was well underway by the end of the project. Regional *conversatorios* had been held in eight cities: Valle de Ángeles, Tegucigalpa, San Pedro Sula, La Ceiba, Comayagua, Danlí, Juticalpa, and Santa Rosa de Copán from August until the end of the Project in October 2003. The project also helped leave behind the plan of action to create the *Unidad Técnica de Análisis de Comercio* and the *Unidad de Información y Divulgación*, as well as the requisite funding in place to recruit personnel and conduct their work. This funding will allow PEP professional staff members to continue to provide support to SIC in CAFTA trade negotiations and trade analysis. SIC and the newly established unit served as key beneficiaries of much of the PEP project equipment, which included: a vehicle, computer software and hardware, photocopier, laser printer, digital camera, and office furniture.

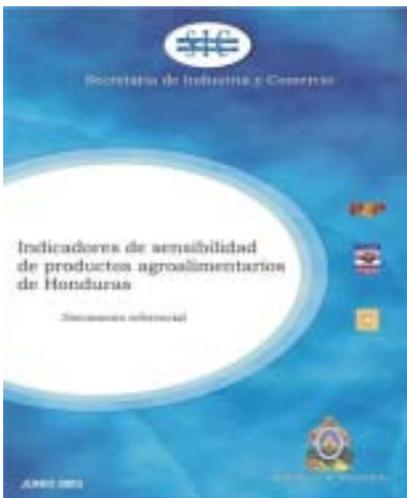
Technical support of CAFTA negotiations. At the request of SIC, the project assisted with the preparation of a framework for analysis and measurement indicators of sensitive agricultural products, [*Indicadores de sensibilidad de productos agroalimentarios de Honduras: Documento referencial.*](#)

Released in time for the fifth round of CAFTA negotiations held in the last week of June 2003, the document:

- ⇒ Defined and provided quantitative indicators of sensitivity of the selected agricultural products.
- ⇒ Analyzed Honduran and US production support programs and export incentives for these commodities.
- ⇒ Summarized WTO permissible agricultural support programs.

The reference document was released in printed form, in a mini CD format for easy transport and reference by Honduran negotiators, and was available through the SIC Internet site.

PEP's assistance in trade negotiations capacity improvement to the *Secretaría de Industria y Comercio* during the last year of the project delivered measurable results.



The project left behind:

- ⇒ An upgraded information technology infrastructure with a state-of-the-art server, new PC workstations, and wide band Internet connectivity to support SIC's *Sistema de Información para las Negociaciones Comerciales*
- ⇒ A reorganized *Subsecretaría de Comercio Exterior*, equipped with detailed implementation plans and resources to conduct technical analyses and consultations with civil society in support of CAFTA negotiations.
- ⇒ A CAFTA communications strategy in place and eight initial regional *conversatorios* conducted.
- ⇒ Lps. 6.85 million from the national budget and \$745,000 obtained from multilateral agencies—IDB and BCIE—and USAID G-CAP regional program to leverage PEP's funds in support of trade negotiations.

In addition to the PEP-provided technical assistance to help Honduras improve its trade capacity, several former PEP staff members will continue CAFTA negotiations support with the resources leveraged by the project from other sources. Although much remains to be done, the project has built a solid foundation for trade management at SIC.

Business advisory services and secondary city development

Field operations of the *Programa de Asesoría de Negocios* (BDS Program) began in late March 2002 after a quarter of feasibility, design, and staff recruitment.

The objectives and performance indicators of the *Programa de Asesoría de Negocios* for businesses in the secondary cities and their economic corridors were as follows:

Objectives	Performance Indicators
1. Increased sales of assisted firms in the Trujillo-Tocoa-La Ceiba and Choluteca-Valle corridors	Increased value of sales as a result of market diversification, higher value-added products and improved business management practices
2. Increased investment	Increased value of assets as assisted firms invest their own funds or successfully secure capital
3. Increased employment	Full-time job equivalent positions increased or preserved as a result of improved sales or restructure of firms in distress
4. Improved firm competitiveness	Improved core business management practices (marketing, production, budgeting, accounting & administration)
5. Improved city and regional competitiveness	Commercially structured joint public-private transactions and proposals for changes in policy and regulations improve competitiveness

Boots from San Marcos de Colón



Increased sales and investment. After eighteen months of operation of the BDS program, PEP-supported transactions in sales and investment reached a value of Lps. 96.46 million at the closure of the project, as follows:

Type of transaction	Number of transactions	Amount in Lempiras
<i>Sales</i>	21	2,767,109
<i>Capital restructuring</i>	7	16,891,000
<i>Investment and working capital</i>	25	66,907,750
<i>Project finance</i>	3	9,350,000
<i>Share capital</i>	1	540,000

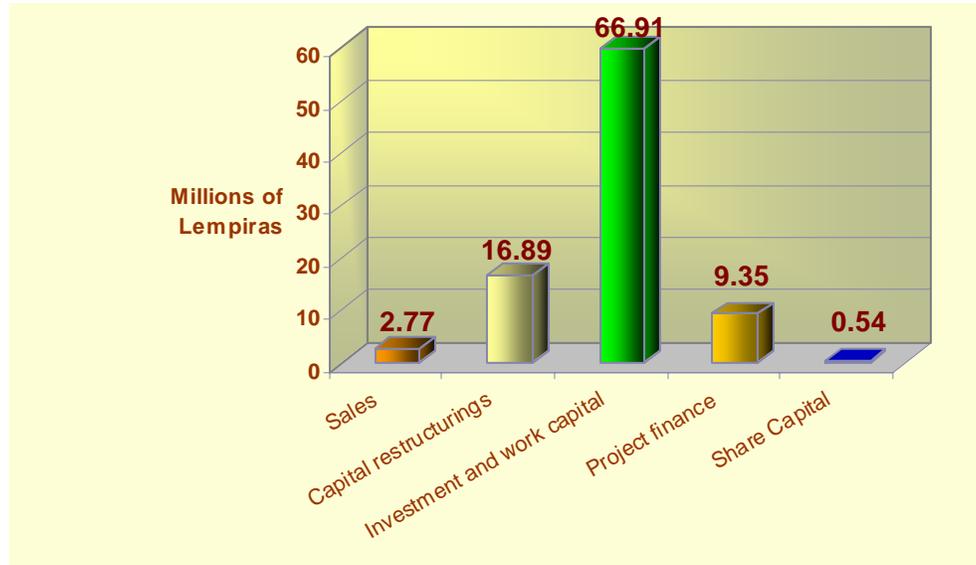
Totals 32 96,455,859

Leverage: 1:19 over the cost of the Business Development Services Program

In dollar terms at the exchange rate of Lps. 17.50 per US\$, the total value of sales, investment and working capital transactions generated by the project was \$5.5 million. This represented a nineteen-fold leverage over the burdened cost of the BDS program.



As the bar chart below shows, the total value of investment and working capital transactions was the highest, followed by capital restructurings, and project finance.



Juices, water, and gelatin from Ruiz Inversiones, Choluteca

A US\$ 2 million beach hotel complex under construction on the proposed *Malecón* of La Ceiba's *Zona Viva* accounts for the largest new private investment transaction.

Improved core business systems of client firms: Subcontracts of the *Fondo de Asesoría de Negocios*.

Considering that client firms pay fifty percent of subcontract costs to third party service providers, the total value and type of these subcontracts are reasonable proxy measures of improved core business systems performance. At the end of the eighteen months of operation of the BDS program, the total Lempira value of subcontracts by type and economic corridors was as follows:

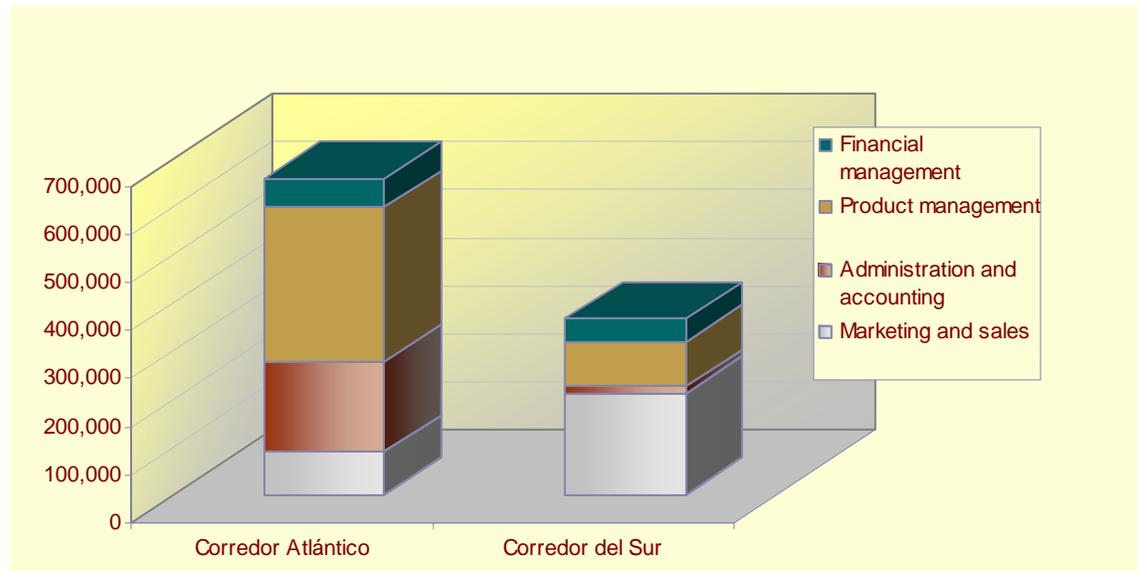
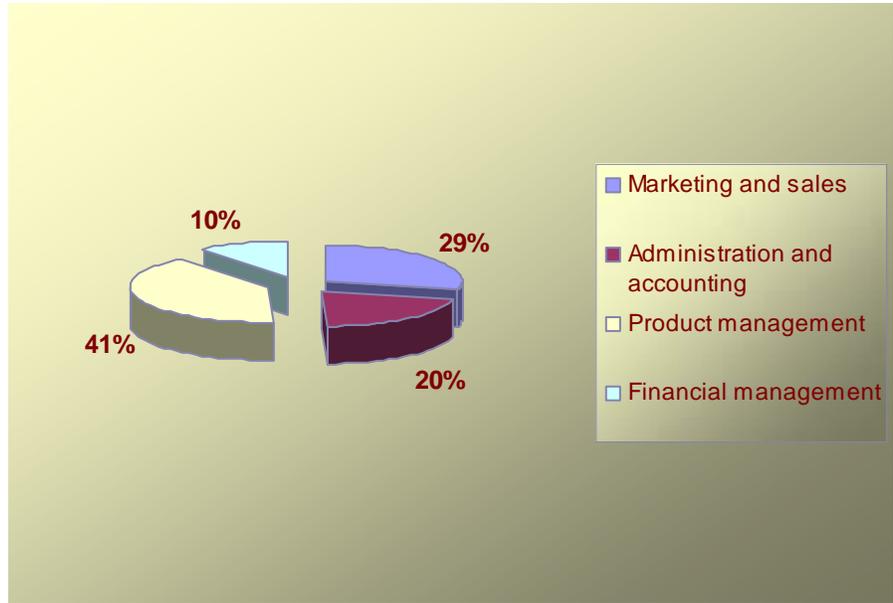
Type of FAN contract	Corredor Atlántico	Corredor del Sur	Totals
<i>Marketing and sales</i>	88,924	210,583	299,507
<i>Administration and accounting</i>	188,620	15,955	204,575
<i>Product management</i>	320,500	93,333	413,833
<i>Financial management</i>	61,000	46,500	107,500

Totals 659,044 366,371 1,025,415

CamarSur facilities, Choluteca.



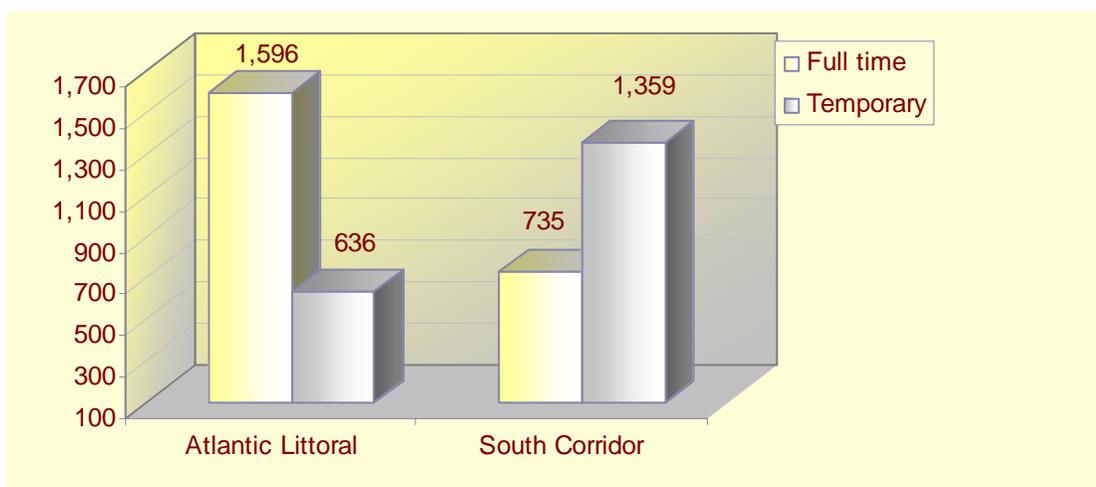
Client firms' investment in services to improve and expand their product lines—product management—accounted for the largest type of subcontract with the Fondo de Asesoría. Consulting services to improve their market position—marketing and sales were second. This is more clearly shown in the pie graph and bar chart below:



Employment. Client firms' total employment was 4,326; 1,773 of these positions were full-time jobs and 1,995 were temporary. Women held 1,584 of the total jobs. The table and bar graph below show the composition of employment by job status, gender, and economic corridor.

Economic Region	Full-time employment			Temporary employment			Totals
	Men	Women	Total	Men	Women	Total	
Litoral Atántico	1,103	493	1,596	628	8	636	2,232
Corredor del Sur	670	65	735	441	918	1,359	2,094

Totals **1,773** **558** **2,331** **1,069** **926** **1,995** **4,326**



Logo of coffee producers and processors. Grupo de Mujeres Mandaime



PEP-supported transactions generated 586 jobs; of these, 108 were full-time positions as shown below:

Type of employment	Number
Full time employment	108
Temporary	393
Subcontracting	85
Total:	586

Improved city and regional competitiveness. Embedded in the starkness of the numbers reported earlier for PEP-supported transactions lies a success story, the tale of La Ceiba, the main secondary city of the *Corredor Atlántico* and base of operations for PEP’s locally-based business advisors. It is a story of the convergence of careful identification of and support for key private entrepreneurs and targeted project interventions to achieve a turn around in a city previously characterized by many observers for its “indiferencia empresarial”.

The project leaves behind a vibrant Chamber of Commerce, a “take charge” attitude among local entrepreneurs manifested in their willingness to create and buy shares in a private company to take over the administration of the local harbor facilities (*Muelle de Cabotaje*), a project well underway to rescue the decaying *Zona Viva* of the city and turn it into a major tourist attraction, and a US\$2 million private investment in a beach hotel under construction on the proposed Malecón.

Rejuvenated Chamber of Commerce and Industry. The *Cámara de Comercio e Industrias de Atlántica* (CCI-A) has evolved from a bankrupt, third-tier organization into a leading regional organization capable of articulating private sector concerns, developing viable proposals, and negotiating these with government agencies. The leadership of the CCIA is now broadly representative and, most important, includes successful entrepreneurs committed to the city and capable of getting things done.

PEP was highly instrumental in convincing key entrepreneurs to take over the leadership of the CCI-A, provided assistance in developing a two year action plan for the organization, and providing a blueprint and equipment for the formation of an investment promotion unit. The role of this unit will be to sell the city to potential investors as a good place to work, to live, and raise a family.



Formation of a private company to administer the *Muelle de Cabotaje* of La Ceiba. Indicative of the regional leadership role that CCI-A now plays is the formation of a private company, CORPODESA, to take over the administration of La Ceiba’s port facilities. The company was formally constituted on 4 September 2003 and has raised Lps 540,000 in share capital. Shareholders are widely representative of La Ceiba and Bay Islands entrepreneurs.

The formation of CORPODESA is a benchmark on the way to negotiations with the *Empresa Nacional Portuaria* (ENP), satisfying one of its conditions to turn over management of the port facilities to the

private sector. The enthusiastic response to purchase shares in the new company rewarded CCI-A and PEP efforts began on 3 March 2003 to seek and propose solutions to the poor management and maintenance of the facilities. [See [“Concesión Muelles La Ceiba 31-Mar-03.ppt”](#) for a PowerPoint presentation prepared by PEP for a CCI-A workshop on Honduran precedents on private administration contracts and alternative transaction structuring.]



CORPODESA and PEP have entered into a *Fondo de Asesoría de Negocios* (FAN) subcontract with ICAHR, an engineering firm specializing in port facilities, to prepare a business plan for the facility with an emphasis on the programming of capital expenditures required by ENP before turn over of the facilities and the recurrent maintenance costs of dredging operations. The feasibility study was completed in October 2003. To view the feasibility study, please click [here](#). The full study, including annexes is available on a separate CD.



La Ceiba's Zona Viva Project. Adjacent to the beach and traditionally an entertainment area, the city's *Zona Viva* was in fact dying; businesses were generally closing or declining as customers stayed away from the decaying area. Local entrepreneurs and PEP agreed that action was needed to rejuvenate the businesses in the area and “sell” the city of La Ceiba as a safe, clean, attractive destination for local, national and international tourism. Its music, dining, access point to the Bay Islands and ecotourism could be “packaged”

and marketed for national and international tourism. “Selling” La Ceiba as a destination would serve as a rallying point for a private-public partnership to attract investment and bring jobs to the city. The project concept, known as *Sol, Ritmo y Sabor* was presented on 29 July 2002 to key local entrepreneurs, the Chamber of Commerce, the Mayor, the Governor, and municipal council members. [See: [“Sol, Ritmo y Sabor.ppt”](#) for one of the PowerPoint presentations summarizing the project.]



Much has been accomplished since then as a private-public partnership of the CCI-A, entrepreneurs, the Municipality and the *Secretaría de Turismo* nurtured

and supported by the project has:

- Prepared conceptual designs of the Malecón funded by the Municipality and PEP's *Fondo de Asesoría de Negocios*
- Obtained US\$500,000 from IDB/SEFIN *Fondos de Preinversión* for the feasibility and design of the project components: a

pedestrian beach board walk (*Malecón Peatonal*), beach protection structures, rainstorm drainage, water and sewerage connections, and a sanitary landfill.

- Engaged UNAH's Faculty of Architecture students on a *pro-bono* basis to elaborate three conceptual designs of the *Malecón*.
- Registered the logo *Sol, Ritmo y Sabor*, designed by the project, as a trademark of the Chamber of Tourism.
- Obtained IDB/SEFIN funding for the preparation of Terms of Reference for the international bidding to select a firm to conduct the feasibility and design work of all project components, except the Malecón and the consolidation of all terms of reference into a formal request for proposals; the Municipality and PEP funded these two efforts.
- Prepared the evaluation criteria to pre qualify firms for the submission of proposals.
- Selected a short list of pre qualified firms to participate in the tender.

It is expected that pre-qualified firms will pick up the tender documents before the project closure, with bid award occurring after project closeout.

Increased private investment: US\$2 million beach hotel under construction. Construction of a \$2 million beach hotel facility began in late April 2003 and a public ceremony to “set the first brick” took place on 27 May with the attendance of the Minister of Tourism, Mayor, local

authorities, and bank officials providing finance for the project.



New investment: \$2 million beach hotel being built on the proposed *Malecón* of La Ceiba's *Zona Viva* Project. PEP structured finance for the transaction.

Attracted by the prospect of the Malecón and renewal of La Ceiba's *Zona Viva*, the hotel under construction will provide jobs during its construction and when it begins operations, after the project ends.

Construction is proceeding rapidly, with PEP-assisted project finance being provided by *Banco Atlántida*. The significant investment being made, currently the

largest private construction project in the city of La Ceiba, demonstrates

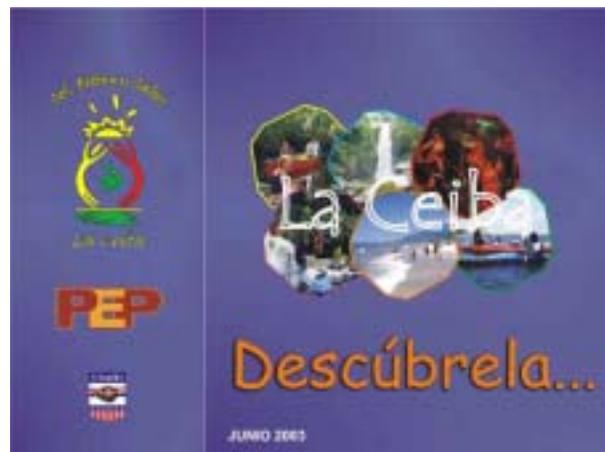


Side view of beach hotel being built on the proposed *Malecón* of La Ceiba's *Zona Viva* Project.

investors' and bankers' confidence in the viability of the *Zona Viva* project conceived by PEP to rejuvenate businesses in this secondary city.

More important than the physical investments in infrastructure, the concentration of a critical mass of project inputs in La Ceiba leaves behind a public-private partnership focused on "selling" La Ceiba as a safe tourist destination. Young entrepreneurs, now formally incorporated in a Junior Chamber of

Commerce, share the vision of La Ceiba as a "*ciudad de la diversión*" and have articulated a short-term plan to translate this vision into action. It remains to be seen what this new generation of entrepreneurial leadership will be capable of achieving in the near future.



[Click the logo above for a PowerPoint presentation to market La Ceiba's weekends in El Salvador; prepared by PEP and the Chamber of Tourism of La Ceiba, Atlántida.]

Reflections

The closure of a project provides an opportunity for reflection on lessons learned on what worked well, what did not, and what we could do better next time, both in terms of project design and implementation. We offer herein our conclusions and lessons learned from the implementation of the Policy Enhancement and Productivity (PEP) Project in Honduras as well as recommendations for the design of potential future policy projects in the Honduran context.

Although our conclusions and lessons learned derive from the specific PEP experience in Honduras, we hope they have wider applicability for future programs.

Conclusions and lessons learned

Policy projects work best when driven by an explicit and agreed upon policy agenda and objectives. In a word, focus. Although specific country environments may require that an economic policy project serve as a general technical secretariat to the usual line ministries that serve as government counterparts, resource constraints and the need for visible results call for focus.

A negotiated and agreed upon policy agenda with explicit policy objectives and results provides such focus. Flexibility of response in a policy project can be maintained through periodic revisions of the prioritization of policy objectives and agenda, and through provisions in project resource allocations to respond to emerging policy initiatives which are consistent with the overall project objective but which were unforeseen at the time the policy agenda was agreed upon. The challenge of project implementation is to maintain flexibility of response to emerging policy initiatives while maintaining a focus on the policy agenda. The trick, as in sailing, is to reach a destination even if it requires temporary tacking.

If the policy agenda and objectives are not set out at the design stage, it should be incorporated as explicit periodic tasks during project implementation and supported at the highest levels. Contractors alone cannot bear the burden nor do they have the clout to negotiate and maintain the focus on the policy agenda. It must be a joint effort with USAID, the Embassy, and the host Government. Visible results are more likely to be achieved in a policy project when these conditions are met.

The PEP project, as documented herein, went through two stages. The first stage was devoted to solid technical assessments and the formulation of policy options in a wide variety of areas. The second

stage built upon these and narrowed its policy focus around a more explicit policy agenda. For example, during the second stage, trade policy became a priority area on that agenda. The narrower approach enabled the project to make an important, lasting impact in that policy area.

Ownership and buy-in from all involved are needed in order to sustain policy change. Focus on an explicit policy agenda and objectives should also lead a policy project to marshal a sufficient level of inputs required to achieve and sustain policy change. The design and implementation of a policy project should allow for flexibility to determine these critical levels according to changing circumstances.

Purely “demand-driven” policy projects are unlikely to achieve tangible results since they do not permit the delivery of a critical level of inputs to any specific policy areas of work and, perhaps worse, may fail to provide expert guidance on medium and long term core policy issues which the country needs to address.

Responding to the original project design, contract requirements, and REACT (Hurricane Mitch) resource availability, PEP formulated a wide range of technically sound policy proposals in a wide range of core policy areas. During its second stage the project focused on a narrower policy agenda and delivered a critical mass of inputs to set up a solid foundation for trade policy and CAFTA negotiations. Again, this more focused approach, combined with the buy-in from the SIC, enabled the project to address longer-term policy goals in a critical area to Honduras.

Policy projects need to focus on implementation. An enabling policy framework codified in laws, decrees and regulations is necessary but not sufficient for achieving sustainable policy changes in some environments. In the case of Honduras, as in other similar environments, policy projects need to provide selective assistance on *policy implementation*. The enactment of laws, decrees, and regulations is one stage in the policy life cycle. In environments with a weak institutional infrastructure to implement, manage, and monitor policy change, project designers need to consider providing resources for elective policy implementation support guided, once more, by an explicit and focused policy agenda. The design of policy projects should consider explicitly and be informed by local circumstances affecting the trade-offs between high bandwidth—wide project scope—and focused, targeted policy change. The enactment of laws, decrees, and regulations in a broad diversity of policy areas as a measure of success needs to be weighed against sustainable and deep results in selected policy areas.

In the case of Honduras, PEP project designers opted for broad bandwidth. The project successfully supported the enactment of laws, decrees, and regulations in a diversity of policy areas (e.g. the Administrative Simplification Law, the legislation establishing the National Statistics Institute, as well as support in fiscal and monetary policy). It achieved success measured by these objectively verifiable indicators. Results, however, did not automatically follow. Although the policy framework was in place, it was not sufficient. Counterpart agencies in charge of implementing, managing and monitoring the new policies lacked the requisite institutional infrastructure and resources to implement the policies and the project lacked the resources to provide this assistance.

In retrospect, the lesson learned for policy projects in Honduras is that the design should be more focused or less ambitious in scope. Future designs of policy projects in Honduras and similar country environments need to make provisions for selective policy implementation support to “close the circle” of the policy cycle according to a policy agenda. This will avoid the frustration of watching a suitable policy framework put in place through project efforts but lacking the means to make it work.

Explicit recognition of and allowances for counterpart agencies’ institutional weaknesses to implement and manage policy change will reduce such frustration and yield measurable results. During its last year of implementation PEP took such an approach, directly and indirectly supporting SIC in improving its capacity in trade and trade negotiations. The results of this approach speak for themselves: they were successful and measurable, as documented in this report.

Well-defined positioning is required for successful policy projects. As in marketing, a policy project requires ‘positioning’ in terms of thematic area and/or the cycle of policy implementation. Given the plethora of bilateral and multilateral programs in any given country, careful coordination with these programs avoids duplication and complements resources to achieve given policy objectives.

During its second stage and with a narrower policy agenda, PEP positioned itself as the leading provider of technical assistance in trade policy and support for CAFTA negotiations. Small in size, the project worked closely with the *Secretaría de Industria y Comercio (SIC)*, bilateral and multilateral programs to leverage resources. It positioned itself in Honduras as a facilitator or broker of transactions, assisting SIC in developing proposals to obtain needed resources to support trade policy and CAFTA negotiations.

While the specific ‘positioning’ of a policy project will vary according to the country context and over the life of the project, designers and implementers must make explicit choices in this regard to insure that the project finds its niche and adds value in the often crowded field of policy support providers.

Economic policy projects may work best when integrated with interventions in the microeconomic environment and at the firm-level. An innovative feature of PEP, implicit in its original design was the integration of macroeconomic policy support with sectoral and private sector support interventions.

In effect, the project piloted a “second generation” of designs of economic policy type projects through this integration. During its second phase, PEP anchored its microeconomic environment interventions at the firm level bypassing work through intermediary associations, the approach taken during its first stage of interventions in this area.

The soundness of such an approach was validated by the results obtained. A modest program of technical assistance provided at the firm level yielded tangible results, achieving a high leverage ratio of value of transactions concluded relative to burdened project costs and making a virtue out of its smallness.

Towards the end of the project, the premise originally envisioned for this approach to policy change “from the bottom up” rather than “top-down” was also validated when private sector entrepreneurs of *La Ceiba* successfully began to articulate their demands for a private concession of the city’s port facilities. The project had succeeded in *articulating a constituency* for policy changes from the bottom up; this, in a region usually dismissed as “apathetic”. Although the verdict is still out concerning what will happen to this nascent initiative after the end of the project, the initial empirical evidence supporting this “second generation” of policy project designs “from the bottom up” points in the right direction.

Additional empirical evidence for this type of integrated policy project design will become available after a few years from Mongolia, where the Mission has boldly embraced this type of design, with support envisioned for macroeconomic policy, the microeconomic environment, and firm-level assistance to improve competitiveness.

There is a market in Honduras for business development services provided through a client firm co-payment scheme. Results obtained through the Business Development Services (BDS) component validated the design features of the *Fondo de Asesoría de Negocios* (FAN) and its requirement for cash client co-payment to a third party service provider for the provision of business advisory services.

As the first BDS program in Honduras to implement actual payments to suppliers of business services, the program was cost efficient, fostered program ownership by the client, and reduced dependency on grants or giveaways. Contrary to initial skepticism about hard cash client co-payments to business service providers, results obtained confirmed that client firms were willing to pay for services that they perceive will meet their needs.

Implemented successfully in other countries by Chemonics, the BDS approach was trailblazing in the Honduran context. Towards the end of the project, as PEP shared its methodology and results for the BDS program, seasoned practitioners praised its transparency, simplicity, and results-based approach to improve the competitiveness of Honduran firms.

Recommendations

The lessons learned over four years of implementation experience of an economic policy type project such as PEP can be distilled in recommendations for future design of this type of project in Honduras. They are also applicable to other country contexts with due consideration given to contextual differences.

Future policy projects in Honduras need to focus on a policy agenda driven by increased competitiveness of private sector firms. If project designers do not explicitly define this agenda, it should be incorporated as a recurrent annual task of the contractor. While the agenda and policy objectives should be for the life of the project, i.e., last through the duration of the project, annual results expected could vary. The agenda and policy objectives should be defined in consultation with private sector firms.

Defining a policy agenda based on improved competitiveness of private sector firms is justified in terms of project positioning relative to the roles of multilateral agencies in Honduras. A policy project does not usually have a competitive advantage in providing macroeconomic

policy support unless it is done in conjunction with other multilateral and bilateral agencies.

The locus of the policy agenda and objectives should squarely sit on the microeconomic environment in which businesses operate, with project support provided in the macroeconomic environment on an as-needed basis.

Project designers will also need to make an explicit choice regarding the relationship of this type of project to poverty reduction. In our view, poverty reduction is ultimately based on the sustainable competitiveness of the firms that generate employment and an economic surplus, and that pay their taxes. Burdening this type of policy project with short-term results in poverty reduction and employment generation is inefficient and counterproductive when other more targeted poverty alleviation project designs are available.

Interventions in the microeconomic environment of the firms should use a “bottom-up” not a “top-down” approach. Designers and implementers should be pragmatic regarding interventions on the microeconomic environment and use a “bottom-up” rather than a “top-down” approach. Honduras and similar countries need to build competitiveness at the firm level first, assist in the development of anchor firms as they emerge naturally and, if and when natural clusters develop, facilitate their growth, not the other way around.

Interventions in the microeconomic policy environment should address generic as well as regional or sector specific concerns of private sector firms. Generic interventions are those posing high aggregate transaction costs for all businesses. Examples of generic interventions for Honduras include “full policy cycle” assistance in company registration and trademark systems. “Full policy cycle” assistance should provide resources to improve the institutional infrastructure (*inter alia*, systems, management procedures, and IT infrastructure) of counterparts in charge of compliance and/or regulation. An example of a regional, “bottom-up” intervention is provided by PEP’s work in *La Ceiba* to assist private local entrepreneurs in articulating the need for a private concession of the port facilities to improve its management. Assisting SENASA in developing its capacity to implement and monitor sanitary standards for milk and dairy products processing plants to level the playing field and diminish unfair competition would be an example of a sectoral intervention.

While generic interventions could generally be driven from the top down, regional and sector interventions should be pragmatically tackled only when there is a clearly identified obstacle to business and there is a constituency to support such change.

Use a “next generation” policy project design through the integration of interventions at the macroeconomic, microeconomic, and firm levels. Based on the initial results obtained by PEP, the integration of interventions at the macroeconomic, microeconomic environment and firm level appears to work well. Although additional empirical evidence will need to be accumulated, this integration of policy project with interventions at all levels yields measurable results and should be considered for Honduras in future policy projects.

Parameters of design to improve competitiveness of firms in Honduras. PEP took a pragmatic, distortion-free approach in its provision of BDS to client firms in two economic corridors of Honduras and documented its methodology for others to use. (See: [Results –PEP PAN 30-Sep-03.ppt](#))

PEP’s BDS Program combined a transaction-based approach (aggregate values of sales, working and capital financial transactions closed) with a program of assistance to improve core business systems of client firms (marketing, production, accounting and financial management, among others). This combined approach is still valid for the design of future programs of assistance to Honduran firms

Equally replicable for future BDS programs in Honduras is the simple and straight forward cash client co-payment to a third party service provider to cover fifty percent of the cost of the assistance.

Designers of future BDS programs in Honduras should give due consideration to the performance indicators chosen at the firm level. Based on the typical profile of firms assisted through the BDS Program in the two economic corridors, increased competitiveness of Honduran firms will come through better marketing and cost management and not through increased employment or increased investment in fixed assets. Whether an expanded sample of firms from different regions will yield the same firm profiles of unutilized fixed assets and generally inadequate financial controls remains an open question.

Indicators of performance at the firm level for future project designs need to be firmly grounded on traditional measures of firms’ competitiveness: ability to generate adequate net margins, and returns on equity and assets. Given the generally incipient development of

accounting systems gleaned so far, project designers will have to make judicious choices of adequate surrogate measures.

Ultimately the market, and how firms respond and adapt to market forces, will largely determine the levels of employment generated and impact on the reduction of poverty. It is clear that the Government cannot do it all on its own. Improving competitiveness at the firm level (from the bottom up) can help to guide the policy agenda at the macro level. This is a critical link and one that provides a strategic focus for the implementation of business development and policy activities.

We appreciate the opportunity to implement the PEP project and hope that these reflections are of use to designers and implementers of policy design projects in Honduras and elsewhere.

Annex A – Contract Data

Contract No.	522-C-00-00-00203-00
Dates of Contract	10/26/1999 - 10/25/2003
Total Contract Value	\$10,861,197
Obligated amount (US\$)	\$8,759,909
Obligated amount (local currency Ls.)	Ls. 30,967,962

Total invoiced through January, 2004 (US\$)	
CLIN 1: ST Technical Assistance	\$2,110,873
CLIN 2: Training/OBSE	\$ 314,273
CLIN 3: Public Awareness	\$ 54,164
CLIN 4: Business Management	\$ 172,937
CLIN 5: LT Technical Assistance	\$3,894,364
CLIN 6: REACT supplemental	\$2,178,190
<u>Total (US\$)</u>	<u>\$8,724,805</u>

Total invoiced through November 30, 2003 (local currency)	
CLIN 1: ST Technical Assistance	Ls. 2,113,377
CLIN 2: Training/OBSE	1,644,530
CLIN 3: Public Awareness	763,503
CLIN 4: Business Management	3,096,230
CLIN 5: LT Technical Assistance	10,788,437
CLIN 6: REACT supplemental	12,561,624
<u>Total (Ls.)</u>	<u>Ls. 30,967,701</u>

Remaining unexpended balance (US\$)	\$35,104.00
Remaining unexpended balance (local currency Ls)	Ls. 261.00

* The total invoiced through January 2004 does not reflect all costs incurred prior to the project end date, October 25, 2003. During the next few months we will invoice all remaining costs incurred prior to October 25, 2003.