

ACTION MEMORANDUM FOR THE ACTING MISSION DIRECTOR

FROM: Danilo Cruz-DePaula, DF *DK*  
Kevin Sanderson, DF

THROUGH: *Lars Klassen*  
Lars Klassen, DF

SUBJECT: Authorization for the Policy Analysis and Implementation  
Project (522-0325)

DATE: August 27, 1987

Action Required: Authorization of \$12.0 million in grant funds (\$7.0 million ESF and \$5.0 million D.A.) over a seven year period for the Policy Analysis and Implementation Project.

Discussion: The purpose of the project is to strengthen the Honduran capacity to formulate and implement economic policies and administrative reforms. Specifically, the Project will positively impact on the Government of Honduras' (GOH) ability to design and implement its macroeconomic program and structural reform measures included in the Economic Support Fund Program. Successful implementation will result in an improved capacity by the GOH to undertake policy analysis and administrative reforms in areas of crucial importance to the Honduran economy. The Project will also increase the capability of the Honduran private sector to establish an effective policy dialogue with the GOH, and promote more efficient market-oriented policies. Accordingly, the Project will consist of two interrelated components.

The first is the Public Sector Policy Analysis and Implementation Component. This component will address the human and technical resource gaps inhibiting effective policy analysis and formulation by financing technical expertise to assist policy analysts already working in the GOH. It will also include graduate level and short-term training in economics and other related disciplines to strengthen the Government entities supporting policy formulation and implementation.

The second component is called Private Sector Policy Analysis, Consensus-Building and Education. This component will focus on improving the capacity of the private sector, through the Honduran Private Enterprise Council (COHEP) and other private sector institutions, to formulate and lobby for market-oriented policies which stimulate private enterprise activities and promote economic growth. Activities under this component will be geared to overcoming the principal private sector constraints to effective participation in the policy process, inter alia, increasing private sector input in policy formulation, and realizing greater private sector coordination. This will be accomplished through the provision of TA which will work with COHEP in carrying out its policy analysis and expanded policy dialogue mandate.

The public sector component will consist of a \$7.0 million bilateral grant financed with ESF resources, while the private sector component will consist of a \$5.0 million Cooperative Agreement financed with a Development Assistance grant. The GOH and the private sector will provide \$3.4 million in counterpart resources (See below for discussion on counterpart contribution).

Project Paper Review: The Project Paper was reviewed on July 31, 1987 and on August 4, 1987. The Mission Director approved the PP in principle subject to changes in a number of areas as discussed below. The key issues centered around four areas including the private sector component, resource levels for several project activities, project management, and issues related to training.

1. Private Sector Component: One of the issues raised during the review was the appropriateness of COHEP as the lead institution in implementing the private sector component and whether it was indeed the primary representative of the private sector in policy-related issues. The Project Committee (PC) pointed out that COHEP, while not the strongest of private sector institutions, was the most representative and, as such, was already seen by both the private sector and the GOH as the legitimate representative of the private sector. Hence, the PC determined that COHEP is an appropriate vehicle under this project for private sector involvement in policy formulation.

A related issue was whether sufficient resources were being reserved to strengthen COHEP's member organizations through the project, and the possibility of encouraging organizations other than business associations to become members of COHEP. On the first point, it was decided that sufficient resources were being assigned for organizational strengthening. Numerous associations affiliated to COHEP are very strong (i.e., CCIC, ANDI). Others would require assistance, but the project envisioned this type of effort. Finally, there was a consensus that neither the project, nor COHEP, should try to salvage organizations which indeed may have little support from members. On the second point, the review committee decided that we should not encourage membership status for corporations because of the danger of COHEP competing with its member organizations, and the possibility of several strong companies dominating the organization. (Corporations could join either COHEP or the various business associations which comprise COHEP's membership, therefore, a risk of conflict between COHEP and its members would exist.)

An important issue was raised regarding the possibility that the private sector might use the project to exact special privileges from the government rather than promoting market-oriented policies. The problem of building a private sector consensus on policy issues was also raised. On the special privileges, it was pointed out that the number of COHEP

member organizations (32) and their varied interests, as well as an increased capacity for independent technical competence, provided checks and balances against this danger. It has been and will be difficult for COHEP to support the special interest of only a few members. On the consensus issue, it was argued that there are numerous broad economic issues that COHEP will be able to analyze. While consensus may not be possible on all issues, more important is establishing an understanding of the issues involved in economic policies by Honduran society at large. The enhanced debate and greater understanding of economic issues will be extremely important in Honduras' future economic growth.

The issue was also raised as to whether COHEP is in fact likely to achieve financial self-sufficiency by the end of the project. It was agreed that the COHEP and consultant projections discussed in the Project Paper are optimistic. But the consensus was that the primary objective of the project is to achieve policy reform over the next six years. If that is accomplished, and COHEP becomes a more efficient institution, as is expected, the project will be a success even if COHEP must eventually scale back its operations to bring them in line with generated income.

A final related issue was the substantive administrative and policy changes that needed to be made in COHEP (such as the voting rules) and whether these should be Conditions Precedent. It was decided that this was a delicate area and that these would be put into the agreement as covenants, while continuing to maintain a productive dialogue with COHEP on these issues.

2. Management of the Public Sector Component. Issues related to project management have a number of facets. First discussed was the management of the institutional contractor/TA team by the Mission instead of the GOH. The PC indicated that, even though from political and institution-building considerations it might be desirable to have the GOH manage the team, it was more appropriate to have the team managed by A.I.D. but emphasizing GOH participation at all levels. During intensive review it was felt that, given GOH desires to have the project implemented as part of the ESF program, and given the fact that the ESF program is coordinated from the President's Office, this was not a practical level from which to manage a TA team. Moreover, since there are a number of ministries involved in the program, it was felt that placing the management responsibility in any one ministry might cause institutional rivalries and make management of the project more difficult. It was agreed that the team would be managed by the Mission with close coordination with the GOH through a Project Committee composed of representatives of the Central Bank, Ministry of Finance and Public Credit and A.I.D. The Project Committee will approve all contractor scopes of work and advisors under the contract and will also work closely with the Chief of Party of the contractor team to coordinate the provision of technical assistance.

A second issue discussed was whether or not the proposed committee system might be cumbersome and difficult to manage. It was agreed that the committee system was likely to be more problematic than other implementation mechanisms, but that it was necessary because of the need for the Central Bank (BCH) and the Ministry of Finance and Public Credit to view the policy issues being analyzed from the same perspective. Moreover, given direct management of the TA team by A.I.D., it is a useful mechanism to ensure GOH involvement in implementation. It was decided that the Project Agreement should clarify the delegation of authority within the committee and limit this to delegation by the Ministers to Vice-Ministers (or other appropriate high level officials) in order to get the highest level political support to the project and make the system run smoother.

Finally, issues were raised regarding overall management and policy coordination within the Mission. It was agreed that while PSP, RD, and other technical offices were responsible for day-to-day operation of their sector components, EPA will be responsible for overall policy coordination. The mission project committee will be chaired by PSP, EPA or other offices depending on whether the issue deals with the public sector component or the private sector component. EPA will coordinate all policy studies and provide guidance on issues concerning economic policy.

3. Agricultural Policy Analysis. The major issue here was whether or not the planned level of effort in the agricultural policy area is sufficient. It was decided that adequate resources were budgeted to permit analysis of numerous important policy issues. Nonetheless, there was a consensus in the PC that the Mission may wish to go beyond the current level of effort in the future. Should this prove to be the case, the PP and its budget will be amended accordingly. Wording to this effect has been incorporated in the PP. At the suggestion of the Mission Director, it was also decided to finance under the project a position for an agricultural policy planning advisor. This person could be a PSC or someone from the Joint Career Corps (JCC) outside of the institutional contract, and will serve as an advisor to both the GOH and the Mission on agricultural policy matters and serve as a Liaison Officer for agricultural policy issues.

4. Training. The salient issue here was the management of the graduate level trainees. Specifically, what would be the best approach to ensure cohesiveness and create a sense of fraternity among trainees as was done, for example, by Arnold Harberger of the University of Chicago with students from Chile and other countries that became leading economic policy makers? It was felt that the best way to accomplish this was to have a single university manage the group (even though the students could go to different universities), plan seminars and summer programs, help

them with thesis subjects, and sponsor other activities which will create a bond between the students. It was made clear, however, that because of ceilings on administrative costs and the high cost of university management of such programs, the Mission might have to use a regular trainee management firm that could not provide the special kind of services we are looking for. After a thorough review of alternatives, it was decided that we will use A.I.D.'s existing training programs through S&T/IT. This system will be further strengthened by a contract with a university or firm to provide the special services of managing the trainees as a group to create the cohesiveness and group "mystique" for which we are looking. This contractor will provide special summer programs, initiate seminars and workshops related to Honduras-specific economic issues, and provide other types of services. It was also decided that the project should be extended to a seventh year to accommodate Ph.D. training.

5. Counterpart Contributions. Subsequent to the PC review, the Mission further considered the question of overall counterpart contribution which jointly (i.e., public and private sectors) equals twenty-two percent rather than twenty-five percent. Given the separation of the project into two distinct activities, the Mission decided that, in fact, public and private sector contributions should not be counted together. With this understanding, the public sector meets its twenty-five percent contribution required by A.I.D. policy. However, the private sector contribution (i.e., COHEP) is less than this.

The private sector component will be signed with COHEP using a Cooperative Agreement. Handbook 13 does not discuss counterpart requirements under such an agreement. However, general Mission policy has been to require all recipients to contribute twenty-five percent to the total life of project cost with no distinction being made for a Grant or a Cooperative Agreement. COHEP has demonstrated a commitment to participate fully in the project and to commit, as possible, all their sources of funding to support the project. Even though COHEP falls short of the twenty-five percent requirement, we recognize that it is not possible in all cases to get a full counterpart contribution. Constraints such as they are within Honduras make it extremely difficult for private sector organizations to be able to meet the counterpart requirement -- sources of funds simply do not exist. Given COHEP's stated commitment and, an understanding by COHEP that it will raise approximately \$1 million over the life of the project as a measure of self-sufficiency, Mission management concurred with the exception that COHEP not be required to meet the twenty-five percent counterpart contribution.

Congressional Notification: The Notification was sent to Congress on July 27, 1987 and expired on August 10, 1987.

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Authority: The USAID/Honduras Director may authorize a project under \$20 million pursuant to Delegation of Authority No. 753 dated September 1, 1986, provided that the project does not present any significant policy issues, does not require issuance of waivers that may only be approved by the Administrator or Assistant Administrator, or does not have a life of project in excess of seven years. As the Cooperative Agreement with COHEP exceeds \$100,000, an ad-hoc redelegation of authority is required from AID/Washington to obligate the Cooperative Agreement. In addition, a waiver of competition for Cooperative Agreements is also required from the AA/LAC. This delegation of authority was received August 22, 1987, and a waiver has been requested.

Obligation of the private sector agreement will be postponed until a favorable reply is received. Per consultations with the RLA, however, you may authorize the project prior to receipt of the requested waiver from AID/W.

Recommendations: That you sign the attached document authorizing \$12,000,000 in grant funds over a seven year period for the Policy Analysis and Implementation Project.

Approve: \_\_\_\_\_



Disapprove: \_\_\_\_\_

Date: \_\_\_\_\_

8/28/87

Project Authorization

Name of Country/Entity: Honduras/COHEP  
Name of the Project: Policy Analysis and Implementation  
Number of the Project: 522-0325

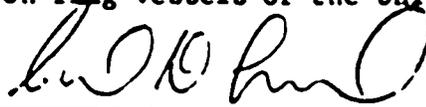
1. Pursuant to Sections 103, 106, 531 and 534 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Policy Analysis and Implementation Project ("Project") for Honduras and the Honduran Council for Private Enterprise (COHEP) involving planned obligations of not to exceed Twelve Million United States Dollars in grant funds ("Grant") over a six-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the Project is seven years from the date of initial obligation.

2. The Project includes both a public sector component and a private sector component. It consists of providing technical assistance, commodities and training: (1) to the Government of Honduras represented by the Central Bank of Honduras, the Ministry of Finance and Public Credit, and other public sector institutions involved in the formation of economic policy; and (2) to the Honduran Council for Private Enterprise.

3. The Project Agreements, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. Regulations and Delegations of Authority, shall be subject to the following essential terms, together with such other terms and conditions as A.I.D. may deem appropriate:

Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the Grant shall have their source and origin in the United States (A.I.D. Geographic Code 000) or in the Cooperating Country or in other Central American Common Market Countries, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the U.S., the Cooperating Country, or other countries included in the Central American Common Market as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.



Carl H. Leonard  
Acting Mission Director

8/28/87

Date